# Executive Chairman's Introduction

**Adair, Lord Turner,
Executive Chairman of the FSA until 31 March 2013.**

This is the last Annual Report of the Financial Services Authority (FSA). It covers the 12 months to March 31 2013. From April 1 the FSA's responsibilities were divided between its two successor bodies, the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA).

I took over as Chairman of the FSA on 20 September 2008. Stresses in the global financial system had been growing since the previous summer. Over the subsequent three weeks they intensified, producing the worst financial crisis for 70 years. The financial crisis revealed significant deficiencies in the prudential regulatory approach which the FSA, in common with other regulators and central banks across the world, had applied in the pre-crisis period. But the FSA had already recognised some of those deficiencies in the Internal Audit Report on Northern Rock, published six months before I arrived. And the organisation I joined was determined to recognise and publicly admit its mistakes, to learn from them and to put them right.

Over the subsequent four and a half years, the FSA radically reformed its approach to prudential supervision and was a global leader in the definition and implementation of new capital and liquidity standards. We also made major changes in our approach to conduct regulation, intervening earlier when issues first arose, and more effectively addressing long standing issues such as payment protection insurance (PPI) misselling. We built steadily over the years a more effective enforcement approach of credible deterrence. And the Markets Division continued to oversee the London wholesale market professionally and effectively.

The FSA's successor bodies will build on these achievements. They will be in a better position to do so because they are able to focus on the distinct challenges of prudential and conduct regulation and supervision. The sheer range of FSA responsibilities and activities described in this report illustrates the case for a new organisational approach which will enable that distinct focus. But delivering the effective demerger of the PRA and FCA has inevitably been a major challenge – requiring a myriad of decisions relating to personnel, process design, premises and IT support. On the FCA side it has also involved extensive preparation for major new regulatory responsibilities – in particular, the competition objective that the FCA was given on 1 April 2013, and the responsibility for consumer credit regulation which it will assume during 2014.

This year's Annual Report therefore begins with a section on the regulatory reform process. Organisational change, however desirable, is always potentially disruptive – it can too easily divert attention from business-as-usual challenges and risks. It is therefore greatly to the credit of the organisation that we delivered the structural change smoothly, while continuing to meet major external challenges.

Many of these challenges were foreseen in last year's Business Plan. These include:

- Delivering financial stability (pages 21 to 32). This has entailed continued work, domestically and internationally, on the development and implementation of prudential policy, in the areas of shadow banking, CRD IV, Solvency II and the bank liquidity regime. It has also involved ongoing prudential supervision and stress testing of individual firms, and a continual focus on risks potentially arising from external developments, whether in the Eurozone or elsewhere. The extensive FSA input to the formulation and implementation of Financial Policy Committee decisions has also been crucial: this included important steps taken in summer 2012, at the FSA's initiative, to ensure that rising capital and liquidity requirements did not offset the potential economic benefits of the Bank of England's Funding for Lending Scheme.

- Delivering market confidence (pages 35 to 48). This has been achieved through supervisory initiatives such as market surveillance, market abuse and transaction reporting. It involved implementing key domestic policies such as those relating to listing rules, regulated covered bonds and client asset protection. We were also closely involved in influencing and implementing evolving European regulatory regimes such as MiFID and EMIR.

- Delivering consumer protection (pages 51 to 72). Here we developed our supervisory approach to enable more effective early intervention, and we continued implementing the Retail Distribution Review and started implementation of the Mortgage Market Review. Domestic-focused action has also involved the with profits review, the banning of referral fees, and ongoing oversight of the PPI redress procedures. Important international work has related to MiFID, UCITS and compensation and dispute resolution directives.

- Acting on financial crime (pages 75 to 78). This entailed requiring the regulated sector to improve its defences, increasing the intensity of our supervision, and working with our partners across Government and law enforcement, both in the UK and overseas.

Alongside these foreseen challenges, however, the organisation also had to respond to new developments that evolved after publication of the *2012/13 Business Plan*. These included:

- More extensive work on LIBOR than originally envisaged. The successful conclusion of various LIBOR-related enforcement cases during the year reflected work by Enforcement Division under way since 2009 – an illustration of the long lead times involved in complex cases. But the wider issues raised about the sustainability and effectiveness of the entire LIBOR-setting process led to the commissioning of the Wheatley Review and its recommendations for more robust supervision of contributing bank processes and control frameworks. Our enforcement findings also prompted questioning of what the FSA had known or ought to have known about LIBOR manipulation in the years 2007 to 2009. Our Internal Audit Report, published in March 2013, set out the facts clearly.

- Similarly, while the issue of interest rate swaps sold to small businesses was already under review in 2011/12, new evidence suggested that failings in sales processes were more widespread than had been initially apparent. We carried out significant work to define and secure firm agreement on appropriate review and redress procedures.

- And on the prudential side, the year ended with substantial and successful FSA activity to ensure that depositors of Cypriot banks in the UK were protected as best as possible from the potentially adverse effects of Cyprus's bank resolution process. For me it was striking that my first week as chairman in September 2008 involved a major focus on the problems of Iceland – a small island whose banking system had grown out of proportion to its national economy- and that my last two weeks were dominated by similar concerns.

My tenure at the FSA began amid the most profound financial crisis since the 1930's. That crisis, coming on top of long-standing conduct problems, such as the mis-selling of PPI, has eroded trust in the financial services industry. The PRA and the FPC will need to be continually vigilant in the face of the continuing consequences of the financial crisis: the FCA must seek, alongside the industry itself, to ensure that better conduct enables trust to be restored.

As they do so, the successor bodies will build on the FSA's achievements and reforms over the last several years. These achievements were made possible by the hard work and commitment of our staff. I leave the FSA confident that they will continue to rise to the challenges in the successor organisations.

Adair Turner