

Regulation round-up



August 2014

Banks & building societies // Insurers & insurance intermediaries
Financial advisers // Mortgage lenders & brokers
Investment managers & stockbrokers // Wealth managers & private bankers



Welcome to the August issue
of *Regulation round-up*

Linda Woodall, Director of Mortgage & Consumer Lending

'...we are keen to get a better understanding of consumer expectations and how the industry can bridge this gap...'

I am pleased to introduce this mid-summer issue of the regulation round up. Although August is traditionally the holiday period for many of us, there continues to be a lot going on in the mortgage and consumer lending sectors.

Mortgages

Last month's regulation round up featured our discussion paper on the fairness of changes to mortgage contracts. The paper provides the opportunity to consumers and firms to provide us with views on whether the current regulatory framework is sufficient to ensure consumers are protected.

To supplement this we will also be holding some events over the next few months to explore some of the issues set out in the paper in further detail. We are keen to get a better understanding of consumer expectations, and how the industry can bridge this gap by better meeting the information needs of consumers. We look forward to hearing your views on this.

We recently emailed firms with mortgage lending permissions following the Financial Policy Committee's (FPC) recommendations of 26 June 2014. The FPC recommended that when assessing affordability, mortgage lenders should apply a 3% interest rate stress test. We asked firms to provide us with details of how they are applying this.

Credit

In terms of consumer credit, many of you will no doubt have seen the recent media reports on the use of fake letters by Wonga. We are pleased that affected customers will be compensated for the firm's unfair and misleading behaviour. Over the coming months we will be looking at debt collection activities across the sector to ensure firms aren't using misleading letters. We believe that it is vital that those experiencing financial difficulty should be treated fairly and their situation not exacerbated by poor behaviour.

In both sectors we continue to work hard to ensure:

- customers are treated fairly when receiving advice
- firms identify and manage the risks arising from change in business models
- firms lend responsibly



Hot topic:

Retrospective application of regulatory rules - call for examples



We recently published the outcomes of our work on the perceived 'expectations gap' between regulators and industry. This work considered how any differences in understanding between regulators and industry might affect the quality of products and services that consumers receive, or inhibit consumer-friendly innovation.

We asked the industry whether market development was being held back by uncertainty around rules, or concerns over retrospection.

So we have launched Project Innovate, and we are consulting on guidance on what is, and what is not, a personal recommendation.

We remain interested to hear from firms about times when they believe the FCA (or the FSA) applied its rules retrospectively. That is, applied a more demanding standard or interpretation of the rules after the event with the benefit of hindsight.

The examples you give us will be used to feed into our continuing work, and our approach to communicating with the industry.

To send us examples of retrospective regulation, please see our [website](#) for more information. Please be as specific as you can in order to help us analyse the evidence.

Find out more



Hot topic: Data strategy

We are pleased to announce that in September we will publish our first quarterly bulletin bringing together a wide range of data that we collect on a number of subjects, such as complaints or PPI redress. This will make the data that we publish more accessible.

In September we will also be running the first of a series of events on our data strategy. Our first event on Thursday 25 September will be entitled 'working together better with data'. This two-hour workshop, hosted by FCA data experts, will focus on our recent exploration of collecting data from a range of sources to aid our understanding of the markets we regulate.

The workshop will explore:

- what it means for the FCA to collect data from
- sources other than firms
- how we could use this data
- the implications of this approach for both us and firms

For those interested in the progress we have made in implementing our data strategy, we will publish an update in October.

We are keen to hear from parties interested in joining the discussion. To register your interest in joining us for this event, or to submit suggestions for topics to include in the bulletin, please contact our Data and Analysis Department by email: fcadataandanalysis@fca.org.uk. Places at the event are limited and will be allocated on a first come, first served basis.

Find out more

Banks & building societies

General Insurance Add Ons market study - final findings report

We have published the final report of our market study on the sale of general insurance add-ons. This follows on from our provisional findings report in March 2014, and takes account of the consultation responses we received. The study was launched by the FSA in December 2012 and was confirmed as the FCA's first market study in July 2013.

Updated Remuneration code consultation

In partnership with the Prudential Regulation Authority (PRA), we are consulting on revisions to the current Remuneration Code following the recommendations put forward by the Parliamentary Commission on Banking Standards.

Senior Managers Regime consultation

We are consulting on the role of senior managers and material risk takers. Our conduct rules will hard-code standards of behaviour we expect from employees while changes to remuneration will correctly align incentives.

General guidance to mortgage lenders consultation

Following the FPC's recent recommendations we invite views on the proposed guidance on the loan to income (LTI) ratio for residential mortgages. This will affect FCA-authorized mortgage lenders that are not a subsidiary of a PRA-authorized firm that is a bank, building society, friendly society, industrial and provident society, credit union, PRA-designated investment firm and overseas banks.

Banking Recovery & Resolution consultation

This CP sets out the proposed changes to our Handbook that are required to transpose the Recovery and Resolution

Insurers & insurance intermediaries

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Independent Governance Committees Consultation Paper

We have published a Consultation Paper on Independent Governance Committees. As proposed, firms operating workplace personal pension schemes will be required to set up and maintain IGCs.

These will act in the interests of scheme members in assessing the value for money of workplace personal pension schemes. The purpose and broad remit of IGCs was agreed with industry and government in response to the OFT market study published in September 2013.

The deadline for responses to the questions raised in this consultation paper is 10 October 2014. We intend to publish a policy statement in January 2015, with our rules becoming effective from April 2015 alongside other workplace pension reform measures.

Temporary product intervention on CoCos

We have restricted the distribution of CoCos to retail consumers starting from 1 October 2014 and will last till 1 October 2015. It will apply to the retail distribution of new issues and of investments on the secondary market. It will also apply to securities issues abroad where UK firms seek to market them. CoCos should not be distributed to retail investors, that is, individuals who are neither sophisticated nor high

Directive (RRD) into the UK regulatory regime for the investment firms and certain group entities that we regulate prudentially and that fall within the scope of the RRD.

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Financial advisers

Retirement reform and guidance guarantee consultation

We have released our consultation paper on retirement reforms and the Guidance Guarantee. It should be read alongside the Government's response to their consultation, Freedom and Choice in Pensions, giving more detail on the Guidance Service that will help people make retirement income decisions.

SIPP Operator Dear CEO letter

We have published the results of a thematic review into SIPP operators. We have also written to the CEO's of all SIPP firms to warn them of the failings uncovered by the review.

SIPP Operator capital requirements

We published our final rules on the new regime, which will come into force on 1 September 2016.

When SIPP operators have failed and entered into administration it has proven extremely costly to transfer the SIPP book to another provider especially when they contain non-standard asset classes. Therefore, there is a significant risk that consumers can end up funding an administration out of their own

Investment managers & stockbrokers (retail & wholesale)

Best Execution thematic findings



Our **review** identified a significant risk that best execution is not being delivered to all clients on a consistent basis. Delivering best execution is fundamental to market integrity and to the delivery of good outcomes for clients who rely on agents to act in their best interests. We expect all firms, who execute, receive and transmit or place orders for execution, to take into account a range of factors and criteria about the nature of the order to obtain the best possible result on a consistent basis for clients when trading on their behalf.

MiFID II Conference



Our MiFID II Conference will take place on 18 September 2014 at The ExCel, London. At the conference we will give an overview of the changes being introduced, explain what this means for firms and explore some of the concerns. We will cover a range of topics including equity markets, commodities and implementing conduct of business standards in the UK. Full day cost is £435 + VAT and just the afternoon is £245 +VAT.

pension assets.

An improved framework will make it more likely that firms can afford to exit the market without being funded from consumers' pension pots.

Enhanced transfer values

We have published a report that summarises the findings of our thematic research into suitability of bulk pension transfer advice provided by financial advisers where employers offered an enhancement to the transfer value (ETV). It is not general guidance on the operation of our rules.

Corporate bonds

We set out some important considerations for consumers who have or are planning to invest in corporate bond funds.

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The afternoon sessions will focus on the conduct side of the changes proposed, which include breakout sessions on implementing conduct of business standards in the UK, Third countries and best execution. Cost of attending the afternoon session is £245 +VAT.

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Removing the Transparency Directive's requirement to publish interim management statements

We are consulting on removing the requirement for issuers of shares admitted to trading on a regulated market to publish interim management statements pursuant to Transparency Directive Amending Directive (2013/50/EC).

Wholesale sector competition review

Our **review** is to identify any areas that might merit further investigation through an in-depth market study. The review will focus primarily on competition in wholesale securities and investment markets, and related activities such as corporate banking. To aid discussion the document includes some examples such as best execution, dealing commission, cross-and selling.

Mortgage lenders & brokers

FPC guidance paper published

Following the FPC's recent recommendations we invite views on the proposed guidance on the loan to income (LTI) ratio for residential mortgages. This will affect FCA-authorized mortgage lenders that are not a subsidiary of a PRA-authorized firm that is a bank, building society, friendly society, industrial and provident society, credit union, PRA-designated investment firm and overseas banks.

Wealth managers & private bankers

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August news round-up

Criminal prosecution has started against Phillip Boakes in relation to an unauthorised investment scheme

We have imposed a recruitment ban on the Financial Group for failing to control its Appointed Representatives

Events & publications

Primary Markets Bulletin - issue 8

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