

Regulation round-up



November 2014

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



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

William Amos, Director of Wholesale Banking and Investment Management

'...it is essential that the interests of customers are appropriately considered in all aspects of your business...'

I welcome the opportunity to introduce the November edition of Regulation round-up and to give you a flavour of our current priorities.

As Director of Wholesale Banking and Investment Management, I oversee approximately 3,400 firms including investment and custody banks, asset managers and hedge fund managers. My responsibilities also include overseeing the lifecycle of funds, from inception, through authorisation and on-going supervision to closure.

I have been in regulation for over 20 years and have never been more convinced of the need to restore trust in the financial services sector. It is essential that the interests of customers are appropriately considered in all aspects of your business when formulating your business strategy, managing conflicts, staff remuneration, and ensuring costs are controlled and fees are clear. Consumers also need to be confident that their assets are being appropriately protected by firms with robust client asset and risk management controls in place.

Preventing financial crime and market abuse are vital elements to achieving our objectives. All firms, regardless of size, need to make sure they have robust controls over money laundering, international sanction regimes,

confidential information flows and trading activities.

This month's edition of Regulation round-up covers the launch of Project Innovate, which will help small businesses bring innovative ideas to the market. It also highlights our recent consultation papers and policy statements.



Hot topic: Complaints thematic review

Our review aimed to uncover barriers to effective complaint handling in firms and to work with industry to propose solutions. The complaints processes at 15 major retail financial firms were assessed, and the overall results were discussed and considered at a working group chaired by the FCA and made up of the participant firms and five trade associations. We also sought the views of the Financial Ombudsman Service and consumer groups.

The review did not deal with PPI complaints, which have been addressed separately.

The review found that some improvements and innovations have already been made. For example, senior management is more engaged with complaint handling, and firms have told us that they are empowering their staff to make the right judgements and to demonstrate empathy.

However, the review also identified areas requiring further improvement. For example:

- Firms do not always consider the impact on consumers when designing and implementing processes and procedures.
- There are inconsistencies in the amount of redress offered, particularly for distress and inconvenience.
- Firms take a narrow approach to root cause analysis (which should enable them to determine, and fix, the underlying reason for a complaint), which may affect their awareness of wider issues.
- There are weaknesses in some firms' management information.

While the firms involved in the review have agreed to make changes, we are asking all firms, not just those that took part in the review, to consider the findings and take steps to ensure that their complaints procedures have the interests of consumers at their heart.

Find out more



Hot topic: Project Innovate

On 28 October our new Innovation Hub, as part of Project Innovate, opened for business. The Innovation Hub will foster innovation in two main ways. The first is by giving direct support to innovators. The second is by flexing the regulatory regime to make it more innovation-friendly.

The Innovation Hub is dedicating its resource to significant innovations that can bring benefits to consumers. We know that innovation can come from a range of sources so we are offering our support to established firms as well as new businesses.

Businesses can now submit a request for support from the Innovation Hub. We will assess requests against published criteria and let businesses know what we might be able to offer.

We are also organising a series of events to continue engaging with firms and organisations that drive innovation in financial services. Our first event will be a seminar for start-ups on 5 December, where we will provide an overview of the process for getting authorised and answer participants' questions.

Visit our [Project Innovate pages](#) on our website for further information.

Find out more

Banks & building societies

Investment managers &
stockbrokers (retail &
wholesale)

Industry-wide remediation programme as a result of FX failings

We will be undertaking a remediation programme with all firms that are involved in Foreign Exchange (FX) trading. This follows our serious and unacceptable findings that five firms were attempting to manipulate the FX market. As part of the remediation programme, an individual within each firm will be required to attest that systems and controls have been reviewed and standards have significantly improved. Benchmarks are a high priority for the FCA and we will not tolerate conduct that imperils market integrity or the wider UK financial system. We have published summaries of each of the firm's attempted manipulation ([HSBC Bank Plc](#), [JPMorgan Chase Bank N.A.](#), [The Royal Bank of Scotland Plc](#) and [UBS AG](#)).

Yorkshire Building Society fine

Yorkshire Building Society has been fined £4,135,600 for failings when dealing with its mortgage customers who were experiencing payment difficulties. These failures led to significant delays in determining the most appropriate payment solutions.

CoCos

We are proposing to set permanent rules imposing restrictions on the retail distribution of CoCos following our temporary product intervention rule in August 2014. We are also proposing to place certain requirements on the sale of mutual society shares to ordinary retail investors.

Financial advisers

Decision notice against Paul Reynolds

Our decision notice states that we have decided to fine Paul Reynolds £290,344 and ban him from performing any function in relation to regulated activities on the basis that he is not fit and proper as he lacks integrity. The decision is provisional as Mr Reynolds has referred the matter to the Upper Tribunal where

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Fund supervision

In a recent article Will Amos set out the new fund supervision team, which will oversee the whole lifecycle of funds, from inception through authorisation to ongoing supervision and termination or closure. This allows us to consistently focus on investor outcomes right throughout the product's lifecycle.

Wealth managers & private bankers

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he and the FCA will present their case.

Statement re: promotion of shares in EMMIT plc

We have been made aware that individuals are being encouraged to transfer money from their work pension schemes into Self-Invested Personal Pensions (SIPPs) and use that money to buy shares in Emmit plc, a company admitted to trade on AIM, a market operated and regulated by the London Stock Exchange (LSE). Some investors are being offered 'cash back' on their investments in Emmit plc, paid by a third party, as an incentive to do this. Our statement outlines our areas of concern.

Sesame Ltd for 'pay-to-play' arrangements

Sesame has been fined £1,598,000 for setting up a pay-to-play scheme. Sesame's arrangement effectively undermined the ban on commission payments brought in by the Retail Distribution Review. The pay-to-play scheme meant that the range of products recommended to Sesame clients under its restricted advice service was influenced by the amount of services Sesame had sold to product providers.

Investment scams campaign

Using funds recovered from the proceeds of crime, we have launched a national campaign to warn people about investment fraud and how to spot a potential scam.

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Mortgage lenders & brokers

Linda Woodall speaks at the CML conference

Linda Woodall, Director of Mortgages and Consumer Lending, spoke at the Council of Mortgage Lenders conference on 5 November. In her speech, entitled 'Mortgage Lending in the post-MMR world', she covered our next steps in terms of thematic work and the future challenges facing the industry.

Insurers & insurance intermediaries

Charge cap CP

Automatic enrolment means that it is even more important to ensure that workplace pension schemes deliver the best possible value for money. We have been working with the Department for Work and Pensions (DWP) and the Pensions Regulator (TPR) to design measures that will help to ensure that all workplace pension schemes are high quality and offer value for money. The measures are set out further in our consultation paper.

AML/ABC

We have published two thematic

reviews that have found that many small banks and commercial insurance intermediaries fail to effectively manage financial crime risk. The two reviews follow related work by our predecessor, the FSA, on banks in 2011 and intermediaries in 2010.

While the reviews found some firms had made good progress in addressing areas of weakness and saw examples of good practice, there were significant shortcomings at other firms. We have also proposed further guidance for all firms to ensure that expectations are clear.

Credit unions

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Complaints handling thematic review

Our review aimed to uncover barriers to effective complaint handling in firms and, where found, to work with industry to propose solutions. This issue is key for all firms and can be found in the Hot Topics section.

Consumer credit

Consumers to see cost of high-cost short-term borrowing fall

We announced that people using payday lenders and other providers of high-cost short-term credit will see the cost of borrowing fall. From 2 January 2015, no borrower will ever pay back more than twice what they borrowed and someone taking out a loan for 30 days and repaying on time will not pay more than £24 in fees and charges per £100 borrowed. Our [one minute guide](#) provides further information.

Rules for credit broking

Some credit brokers use payment details provided by customers to take payment of their fees. We are aware of a number of brokers who take fees upfront, before any services are provided, and without customers authorising the payment or realising that payment would be taken. Practices such as these may be in breach of the law and our rules, and the FCA has the power to take action. Our [one minute guide](#) reminds firms of their obligations.

Tesco statement

In the light of the Serious Fraud Office's (SFO) decision to launch an investigation into this matter, and following consultation with the SFO, the FCA has decided to discontinue its own investigation with immediate effect.

Speech: Consumer credit

At the Consumer Credit Seminar, Linda

Woodall outlined what has been done in addition to what we will be doing in the next six months and beyond.

Connect is now live

Connect is the new online system that will be used by firms to submit applications and notifications to us. It will replace the majority of applications that are currently submitted via the Online Applications and Notifications (ONA) system.



November news round-up

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Events & publications

Positive Compliance

There are a limited number of places remaining for our final 2014 Positive Compliance workshops next month in Chelmsford and London, so be sure to book your place now. This year's workshop focuses on the requirements of RDR and Centralised Investment Propositions/replacement business.

