TRAVERS SMITH

Financial Services and Markets

A Happy New Year?

New Year 2010

The new decade will herald more changes in the laws and regulations affecting the financial services industry and in the U.K. there is the added excitement of a general election which must take place by 3 June 2010 at the latest. If the Conservatives win, then we may see a radical overhaul of the financial services system and certainly at the least the abolition of the tripartite system. Even if they do not win, the new Financial Services Bill, together with its subordinate legislation and associated FSA rules, will bring in a number of significant changes.

We highlight below some New Year Resolutions you might wish to consider before the consultations and changes start swamping your desk. They are based on the more significant enforcement actions which the FSA pursued last year and identify some of the key themes which are likely to remain at the top of the FSA's priority list throughout 2010 and beyond. Many of the resolutions involve a review of some basic housekeeping, but even so this is something which a number of major institutions failed to do in the past. With a much more penal enforcement regime about to be launched, this is the time to make sure that your firm does not repeat the mistakes of others. We expect to see not only much higher fines in 2010 but a greater focus on the role of senior management in relation to failures of the kind listed below.

In the second part of the note, we set out a few dates which you may wish to mark in your diary.

New Year Resolutions - Outline

The resolutions are based on the more significant enforcement actions which the FSA pursued last year: more detail on the particular practical points arising in each area are set out below in Part 1 of this note.

Resolution 1 – review operation of data security systems and controls
The last year has seen a number of firms suffer serious breaches affecting customers, in some cases resulting in enforcement action. There will be no regulatory tolerance for poor data security, whether or not it results in customer losses and there will be a particular focus on risks associated with outsourcing.

Resolution 2 - review processes for the approval of financial promotions
Over the summer the FSA published various materials and an enforcement case relating to financial promotion standards - firms should check to make sure they have taken on board the issues raised.

Resolution 3 - review sales processes, both institutional and retail
The FSA has already written to some of the most significant sellers of structured products requiring them to review their selling processes against the standards published in October, to provide redress to customers where appropriate and to overhaul their advice and sales processes. Whilst this focus has been on structured products there are wider regulatory concerns as to whether firms have up to date suitability and appropriateness checks. There will also be a renewed focus on inducements when CESR publishes its final review of good and poor practices.

Resolution 4 - update market abuse training, particularly for non-equity and OTC markets
The recent market abuse cases raise serious issues about the availability of the statutory defence to market abuse, show that conduct in other markets will often be judged against the expectations in equity markets and demonstrate that there may be market abuse without material price movements. It is essential that firms have given recent, thorough and tailored training to their employees so that the firm and its senior management can be seen to have met the requirements to which they are subject.

Resolution 5 - review trading systems and controls and transaction reporting
The year saw three high-profile mis-marking cases, all the result of inadequate systems and controls. In addition Barclays Bank PLC was fined £2.45m for failing to provide accurate transaction reports to the FSA.

Resolution 6 - review exposures to internal and external financial crime
Aon Limited was fined £5.25 million for failing to take reasonable care to establish and maintain effective systems and controls to counter the risks of bribery and corruption associated with making payments to non FSA-authorised overseas firms and individuals. UBS and Seymour Pierce were fined for internal frauds on customers.

Part 1: New Year Resolutions - Detail

Resolution 1 – review operation of data security systems and controls.

In July 2009, three **HSBC firms (HSBC Life (UK) Limited, HSBC Actuaries and Consultants Limited and HSBC Insurance Brokers Limited)** received heavy fines totalling over £3.25 million in aggregate for their respective data security failings (http://www.fsa.gov.uk/pubs/final/hsbc_inuk0907.pdf, http://www.fsa.gov.uk/pubs/final/hsbc_actuaris0709.pdf and http://www.fsa.gov.uk/pubs/final/hsbc_ins0709.pdf). Significantly, there was no evidence that any of the lost data was actually compromised in practice: as the FSA has shown in the past, a failure to maintain necessary systems and controls will be punished severely even if the risks which such systems and controls are intended to mitigate do not materialise.

The key lessons emerging from the HSBC cases are as follows:

- access to all electronic data, whether maintained within a firm or sent externally, should be encrypted;
- where data is maintained within a firm in hard copy, it should be kept secure in lockable cabinets to mitigate the risk of internal fraud;
- if customer data has to be sent externally on portable electronic media, such as CDs, disks and USB devices, this should be heavily controlled to mitigate the risk of theft or interception – at the very least, such data should be suitably encrypted and the relevant device should be sent by recorded delivery to ensure that it does not go astray;
- relevant staff should be regularly trained on data security issues and given clear instructions as to when and how to apply encryption to sensitive information;
- data security should be taken seriously – one of the remedial measures which HSBC Life instituted was the creation of an Information Security forum as a sub-committee to the formal risk committee set-up – the firm also introduced a new dedicated role of 'Business Information Risk Officer', whose job was to assess the firm's performance against a number of specific information risk indicators.

Resolution 2 - review processes for the approval of financial promotions.

The FSA issued a number of updates during the year: the review of outdoor financial promotions was published in June (http://www.fsa.gov.uk/pages/Doing/Regulated/Promo/thematic/out_fin_prom.shtml), ten case work examples (based on 'real life' cases) were published in July (http://www.fsa.gov.uk/pages/Doing/Regulated/Promo/actions/case/index.shtml) and an industry update on white labelling was published in the same month (http://www.fsa.gov.uk/pages/Doing/Regulated/Promo/pdf/white_labeling.pdf). All firms should review this material to ensure that any lessons which may be relevant for them are picked up. The FSA has a tendency to instigate enforcement investigations if it finds that a firm has failings in relation to areas highlighted by FSA publications of this kind.

City Gate Money Managers Limited was fined £42,000 for failing to ensure that the financial promotions which it approved on behalf of its appointed representatives set out the key features and risks of the relevant investment (http://www.fsa.gov.uk/pubs/final/city_gate_jul09.pdf).

The key lessons emerging from the City Gate case are as follows:

- approving financial promotions for others should not be treated as a formality;
- it is important to require the promoter to explain the purpose of the relevant financial promotion and the nature of the intended audience;
- in approving a financial promotion in order to determine whether it is fair, clear and not misleading, the approving firm has to conduct a 'due diligence' exercise to determine whether any factual statements made in the promotion are factually correct. Therefore, where the firm is approving the financial promotion but has not otherwise been involved in drafting it, it is important to require the promoter to provide evidence to back up any factual statements made in the promotion;
- relevant compliance staff involved in reviewing and approving financial promotions must be trained to understand the importance of the clear, fair and not misleading criteria in order to be able to apply those criteria in practice to the draft financial promotion;
- one must not adopt a 'one size fits all' compliance procedure to the approval of financial promotions – it is important to be able to distinguish between complex, higher risk products and simpler, lower risk products. The more complex the product is, the more stringent and more detailed the approval process must be;
- it is always important to ensure that clear records are kept evidencing the process which has been adopted – as regards the approval of financial promotions, it is not sufficient merely to record the fact that it has been approved or rejected: a clear record of the reasons for the decision must also be kept.

Resolution 3 - review sales processes, both institutional and retail, particularly for structured products

We note below the various papers issued by the FSA towards the end of the year. The FSA's review overall goes much wider than the sale of Lehman backed products and unambiguous messages are being sent, not only to all advisers who recommend structured products but to the structured products market as a whole as to what the FSA now expects by way of good practice. These messages are underpinned by a clear warning that if firms do not meet these expectations enforcement action may follow.

It is already clear that action is pending against firms for mis-selling Lehman-backed structured investment products as the FSA has indicated that three advisers have been referred to the Enforcement Division, and others have been instructed to review their past sales of Lehman-backed structured products, using a suitability assessment template (see below), and to pay redress to customers where appropriate.

The FSA has also written to the largest sellers of other structured products (i.e. non-Lehman backed) requiring them to review their selling processes against the standards which the regulator published in October (see below) and to provide redress to customers where appropriate and to overhaul their advice and sales processes. The FSA will be conducting follow-up assessments this year to check whether firms are complying with the required standards.

All firms involved in any way in the structured products market need to ensure that their processes reflect the latest regulatory thinking in this area.

The papers on this topic which the FSA published on 27 October 2009 were:

- '*Quality of advice on structured investment products – the findings of a review of advice given to consumers to invest in structured investment products backed by Lehman Brothers from November 2007 to August 2008*' (http://www.fsa.gov.uk/pubs/other/qa_structured.pdf) (the **'quality of advice' paper**);
- '*Fair, clear and not misleading – review of the quality of financial promotions in the structured investments products marketplace*' (http://www.fsa.gov.uk/pubs/other/fp_structured_review.pdf) (the **'financial promotion' paper**) – the FSA's review in this case looked at financial promotions of structured investment products that were not Lehman-backed ;
- '*Treating customers fairly – structured investment products*' (http://www.fsa.gov.uk/pubs/other/tcf_structured.pdf) (the **'TCF' paper**);
- *A suitability assessment template* for firms dealing with customer complaints relating to structured investment products (especially, but not exclusively, complaints related to Lehman-backed products) (http://www.fsa.gov.uk/pubs/other/sip_template.pdf), together with an explanatory paper '*Using the FSA's structured investment product advice suitability assessment template*' (http://www.fsa.gov.uk/pubs/other/sip_template_guidance.pdf).

At the same time, although not part of the thematic review carried out in relation to Lehman-backed structured investment products, the FSA has also decided to publish a review of a sample of *structured deposit* promotions (http://www.fsa.gov.uk/Pages/Doing/Regulated/Promo/thematic/structured.shtml).

Resolution 4 - update market abuse training, particularly for non-equity and OTC markets.

In November 2009, two final notices against two bond traders, Darren Morton (http://www.fsa.gov.uk/pubs/final/morton.pdf) and Christopher Parry (http://www.fsa.gov.uk/pubs/final/parry.pdf) sent out a significant message to the debt markets as regards the marketing process for debt issues.

The lessons to be learned from the two cases include the following:

- the FSA has made it clear that the view that was generally held in the debt market that pre-marketing calls are not specific or price sensitive for market abuse purposes was incorrect – firms involved in the marketing of new debt issues will now have to implement procedures such as those used in the equity markets whereby they invite recipients of marketing calls to become insiders;
- following on from the previous point, firms will have to revisit their compliance procedures in the context of the debt and other non-equity markets – reliance upon pre-existing market practices and guidelines will have to be carefully re-examined;
- the information that Mr Morton received was price sensitive on the grounds that it was information which was likely to affect a reasonable investor's decision to buy or sell the new issue of FRNs – an actual or expected price movement may not be an essential element of this 'price sensitivity' test;
- where a price movement is envisaged (as the FSA found it was in the Morton/Parry cases) even a brief movement while the market digests the news will be relevant if it is otherwise 'significant';
- there is now real doubt as to the availability of the 'reasonable grounds' defence under section 123(2)(a) of the Financial Services and Markets Act 2000 – the defence is available where a person believes on reasonable grounds that his behaviour did not amount to market abuse. The FSA held that Morton 'had a responsibility to consider whether the information he received was capable of being inside information, regardless of market practice and the guidance from his compliance department'. This is an extremely high hurdle to set and arguably beyond the intention behind the statutory defence.
- the fact that Morton and Parry were not fined should not be a source of comfort to the industry – a message has clearly been sent and in the light of that any future breaches are unlikely to be dealt with leniently.

Our briefing note on the cases sets out further details: http://www.traverssmith.com/assets/pdf/Legal_Briefings/fsadebtissues.pdf.

Resolution 5 – review trading systems and controls and transaction reporting.

Mis-marking

In May 2009 **Morgan Stanley & Co International Plc** (http://www.fsa.gov.uk/pubs/final/morgan_stanley.pdf) was fined £1.4 million for systems and controls failings in relation to mis-marking by a former proprietary trader of the firm which had led it to make a $120 million negative adjustment in June 2008. At the same time, the FSA also banned the relevant trader, Matthew Piper, and fined him £105,000.

In November 2009 **Nomura International Plc** (http://www.fsa.gov.uk/pubs/final/nomura.pdf) was fined £1.75 million for systems and controls failings regarding book marking within its International Equity Derivatives business. The derivative traders were required to mark their books for certain variables, including implied volatility, correlation and dividends. In one case, a trader had significantly mis-marked volatility levels in the Hong Kong Single Stock book – once discovered, other (non-deliberate) mis-markings were identified.

The firm's independent price verification (IPV) process had failed with a breakdown between the product control department and the front office.

In December 2009 **Toronto Dominion Bank (London Branch)** (http://www.fsa.gov.uk/pubs/final/toronto_dominion.pdf) was fined £7m for repeated systems and controls failings concerning trade book pricing and marking of sophisticated financial products by a single proprietary trader within the firm's Credit Products Group. These errors forced the bank to make a negative adjustment of CAD$96m in July 2008.

Some key lessons to be learned from the cases are as follows:

- controls should be in place to ensure that no individual, however senior or expert, effectively acts without autonomy and without oversight – there should always be someone with independent expertise who is able to understand the product trading process and who is able to monitor and supervise the trader effectively;
- in illiquid markets, care must be taken to ensure that the pricing process cannot be abused – it is important to ensure that there is a robust and independent price verification process which cannot be manipulated by the trader;
- any independent price verification process should be carried out on samples which are sufficiently large to be representative;
- do not give advance notice to the traders as to which stocks or instruments will be included within the next independent price verification process;
- avoid split reporting lines, where possible, but where this is necessary because of the nature of the business ensure that there is no confusion between the relevant supervisors as to their respective roles;
- where a problem is spotted, ensure that it is appropriately 'escalated' within the firm;
- if you have been sanctioned by the FSA once for failings in a particular area, make sure that you do not commit the same errors again!

Transaction reporting

In August 2009 Barclays Capital Securities Ltd and Barclays Bank PLC (Barclays) were fined £2.45m for failing to provide accurate transaction reports to the FSA and for serious weaknesses in systems and controls in relation to transaction reporting (http://www.fsa.gov.uk/pubs/final/barclays.pdf).

The case highlights the fact that transaction reporting is not simply a functional exercise: the FSA uses the data it receives to detect and investigate suspect cases of market abuse, so any systemic failing will not be treated as an insignificant administrative error. Any failure is likely to be treated by the FSA very seriously. Barclays' failures serve as a salutary lesson for all: where there is a high volume of trading, an overlooked systemic failing can become magnified on a significant, even a breathtaking, scale. A range of errors were identified across all reportable asset classes, including: inaccuracies in batch reporting; incorrect trade times; incorrect client or counterparty identifiers; failure to identify the underlying instrument; failure to identify whether the transaction was a buy or sell. In fact, in 17 million transactions Barclays failed to report at all!

Key lessons which can be learned from the Barclays cases are as follows:

- transaction reporting is not simply an administrative formality – a failure to get it right will be treated seriously by the FSA;
- firms should allocate responsibility for and oversight of transaction reporting processes clearly and effectively;
- when instituting a system or process changes, firms should exercise particular care to ensure that transaction reports will remain accurate after those changes come into effect;
- firms should institute/maintain regular sample testing of transaction reports to ensure their accuracy – the samples should be sufficiently large to ensure that they are representative;
- firms should refer to the FSA's TRUP regularly (it was last updated in September 2009) and monitor any topical issues mentioned in Market Watch;
- firms should train all relevant staff regularly.

Resolution 6 - review exposures to internal and external financial crime.

Bribery and corruption

At the beginning of 2009 **Aon Limited** (http://www.fsa.gov.uk/pubs/final/aon.pdf) was fined £5.25 million for failing to take reasonable care to establish and maintain effective systems and controls to counter the risks of bribery and corruption associated with making payments to non FSA-authorised overseas firms and individuals. Aon had relied on a number of overseas persons to win business from overseas clients, particularly in high risk jurisdictions such as Bahrain, Bangladesh, Bulgaria, Burma, Indonesia and Vietnam. Aon paid these persons a 'finders fee'; only after a subsequent investigation were these payments identified by Aon as being suspicious and were reported to SOCA – it ought to have been obvious to Aon that there was a significant risk that the overseas person might bribe the insured, the insurer or a public official and/or that there was no genuine commercial purpose to making the payment to the overseas person.

The key lessons to be learned from the Aon case include the following:

- firms should ensure that their customer take-on and AML procedures take account of and specifically assess and address bribery and corruptions risks – more onerous standards should be applied in relation to higher risk jurisdictions. Payment authorisation procedures should also be addressed;
- relationships with clients and third parties should be monitored on an ongoing basis – when dealing with higher risk jurisdictions firms should be alert to the nature and purpose of payments and whether there is a genuine commercial purpose;
- firms may want to consider the introduction of a clear policy as regards bribery and corruption risks – in Aon's case, the company and its parent designed and implemented a new global anti-corruption programme which included a policy which restricted the use of third party introducers in countries where corruption risk is not 'low';
- relevant staff should be trained on bribery and corruption risks;
- compliance should oversee a firm's systems and procedures and should review new payments and relationships, particularly those to higher risk jurisdictions;
- senior management should consider bribery and corruption risks where relevant and should receive relevant management information in order to be able to assess the risks facing the firm – Aon's policy on introducers is implemented by a working group which reviews all existing and proposed third party relationships and which is chaired by the CFO and is comprised of senior management, business, finance, legal and compliance executives together with external counsel;
- internal audits should cover bribery and corruption risks;
- if any issues are spotted, these should be appropriately escalated to senior management;
- it is essential to take the risk of bribery and corruption seriously: aside from the risk of facing sanctions from the FSA for shortcomings in this area, the Bribery Bill will be enacted shortly and this will introduce a number of new statutory offences, including bribery of a foreign public official and a corporate offence of negligently failing to prevent bribery by an employee or agent.

See our January 2009 briefing note for further details: http://www.traverssmith.com/assets/pdf/Legal_Briefings/fsa_focuses_on_anti-bribery_and_corruption_systems_-_fsmg_flyer.pdf

Internal fraud

In August 2009 **UBS AG** was fined £8million for systems and controls failures within its London-based international wealth management business that enabled a number of employees to enter into unauthorised foreign exchange and precious metals transactions involving customer money on at least 39 customer accounts (http://www.fsa.gov.uk/pubs/final/ubs_ag.pdf). The bank has also paid over $42 million in compensation to customers. At the same time, a client adviser, Andrew Cumming, was fined £35,000 for his complicity in the unauthorised transactions and in 'signing off' on fake UBS 'guarantee' letters (http://www.fsa.gov.uk/pubs/final/cumming.pdf).

It is important to remember that fraud does not only exist within big firms in relation to complex business. In a similar vein to the UBS case, but on a rather smaller scale, **Seymour Pierce Limited** was fined £154,000 in October 2009 for the failure of its systems and controls to guard against fraud by employees (http://www.fsa.gov.uk/pubs/final/seymour_pierce.pdf). A single employee in the settlements department was able to steal in the region of £150,000 from the firm's internal and private client accounts in 36 separate transactions over a period of three years. He was able to make changes to static data (such as client names, addresses, bank account details and payment instructions) and routed illicit transactions through dormant client accounts.

The lessons to be learned from the UBS and Seymour Pierce cases are as follows:

- as with the mis-marking cases, controls should be in placed to ensure that no individual, however senior or expert, effectively acts without autonomy and without oversight;
- however, it should not be assumed that fraud is necessarily a sophisticated exercise – sometimes it is the failure to institute quite simple measures which can cause the firm to be in breach;
- in the UBS case, the FSA observed that desk heads could be promoted into the role from the position of client adviser and that while the firm encouraged such persons to relinquish their customer relationships on promotion, it did not insist that they did so. Where a desk head retained customer relationships, a senior manager was expected to perform the supervisory desk head role in relation to the retained relationships;
- where a firm operates a retained mail facility, it should consider how controls might be improved. The FSA, in noting that UBS's controls over retained mail were ineffective, observed that employees were not required to prepare a checklist of all documents received by the client or to obtain a signed receipt – clearly, retaining some evidence of what has been provided to clients and when is important;
- where settlement staff have access to systems which allow them to manually enter details of e executed trades and/or alter 'static data' (such as client name, address, bank account and payment instructions) this should be monitored carefully to mitigate the risk of fraud;
- suspense accounts and dormant client accounts should not be forgotten – these should be monitored and audited frequently to ensure that no unusual transactions are being channelled through those accounts;
- all accounts should be adequately reconciled in order to identify whether there are any errors or potentially fraudulent activity on those accounts.

Part 2: 2010: A few dates for your diary…

Here is a selection of some dates for your 2010 diary. This list is by no means exhaustive – the year is going to be much, much busier than this…..

1 January 2010	**Remuneration – the FSA remuneration code**: the FSA's remuneration code comes into force for a small number of large banks, building societies and BIPRU 730k firms. ***However***, all other firms should note that there are a number of remuneration initiatives underway: the Financial Services Bill contains requirements regarding remuneration, the Commission is continuing work on changes to the Capital Requirements Directive regarding remuneration and wider international discussions are likely to be concluded by mid-year. Implementation of the amended CRD is scheduled for 31 December 2010. In mid-2010 the FSA will be reviewing its remuneration code in the light of international developments, the progress of the Financial Services Bill and the Walker Review recommendations on remuneration – the regulator has said that it will then consider modifying and/or extending its code beyond large banks and broker dealers. The FSA has warned that firms not currently covered by the remuneration code may nevertheless eventually be covered by remuneration provisions.
5 January 2010	**Financial Services Bill:** the Public Bill Committee is due to sit again, to continue the committee stage of the Bill.
7 January 2010	**Bribery Bill:** the Committee stage in the House of Lords commences.
11 January 2010	**Regulatory fees and levies:** the consultation period for the FSA's 'first phase' of its annual consultation on fees and levies (CP 09/26) closes (except for the proposals in Chapter 6 for which the closing date was 7 December 2009) – this consults on the underlying policy behind the proposals.
21 January 2010	**AIFM Directive:** the deadline for MEPs to table amendments to the Gauzès report in ECON.
January 2010	**Improving Standards of Governance:** following the Walker Review recommendations, and in addition to other measures which it has already implemented (see the FSA remuneration code above) the FSA will consult on governance standards. The expected date of feedback is Q2 2010.
	Enforcement Financial Penalties: the policy statement to CP09/19 is expected in January. This will usher in new sliding scales of penalty tariffs linked to financial income, one for cases against firms, one for non-market abuse cases against individuals and one for market abuse cases against individuals. The FSA will also settle on one of the two proposals it had consulted in relation to financial hardship cases. Higher penalties are to be expected.
	Funds of alternative investment funds: the FSA is expected to publish its policy statement to CP 08/4, together with its made Handbook text for COLL (including the made text for CP 07/6).
6 February 2010	**Expansion of the approved persons regime: significant influence functions:** the transitional relief regarding the changes made to the approved persons regime made on 6 August 2009 expires. Any persons employed by unregulated parent or holding companies who exercise a significant influence and/or any proprietary traders who exercise a significant influence must have been approved by 6 February 2010 at the latest to avoid breaching the new rules which come into force on that date.
22 February 2010	**AIFM Directive:** likely date for amendments to the Directive to be debated in committee.
26 February 2010	**Retail Distribution Review:** FSSC consultation on exam standards closes. FSA encourages advisers to respond to this.

February 2010	**Regulatory fees and levies:** the FSA will publish the 'second phase' of its annual consultation on fees and levies, consulting specifically on the Annual Funding Requirements, the FSA's fee rates, the FSCS management expenses levy limit and the FOS general levy.
10 March 2010	**Regulatory capital:** the consultation period for CP 09/29: *Strengthening Capital Standards* ends. The FSA plans to issue feedback together with its policy statement and final Handbook rules 'probably' in Q3 2010.
16 March 2010	**Establishing Resolution Arrangements for Investment Banks:** the deadline for responses to the government's consultation paper.
	Retail Distribution Review: the consultation period for CP 09/31: *Delivering the Retail Distribution Review* ends.
31 March 2010	**Regulatory capital:** the consultation period for CP 09/30: *Capital planning buffers* ends. The FSA's intention is to publish its policy statement, containing the final Handbook rules, in the Q3 2010.
'Early' March 2010	**Consumer Credit Directive:** regulations for implementing the Directive to be laid before Parliament - these will affect all firms subject to consumer credit laws and may necessitate a review of existing documentation - e.g. as regards loans and overdraft facilities.
First quarter 2010	**Client Assets sourcebook:** in the light of the collapse of Lehman Brothers and following the government's proposals in its December 2009 consultation paper 'Establishing resolution arrangements for investment banks' (including those regarding the creation of a client assets trustee and a dedicated client assets agency) the FSA will be issuing a 'three star' consultation on amendments to CASS.
First quarter 2010	**Protected cell regime for OEICs:** the feedback statement and made text is expected in response to the joint FSA and HMT consultation issued last year.
12 April 2010	**AIFM Directive:** likely date on which amendments to the Directive will be put to vote in ECON.
1 June 2010	**The FSA's liquidity regime:** the BIPRU 12 quantitative requirements are 'switched on' for sterling stock banks and for those building societies which will not be simplified ILAS BIPRU firms.
	Close links regime: the FSA's revised close links rules come into force – firms need to have implemented changes to their procedures by then. See the Travers Smith briefing note http://www.traverssmith.com/assets/pdf/Legal_Briefings/fsmg_flyer_changes_to_the_close_links_regime.pdf which outlines the changes.
3 June 2010?	**General election:** 3 June 2010 is the latest date on which a general election may be held. If the Conservatives win the election, they have said they will (if they give effect to the white paper they published in July 2009) abolish the tripartite system of regulation and give the Bank of England responsibility for maintaining financial stability (see 'From Crisis to Confidence: Plan for Sound Banking').
10 June 2010	**Consumer Credit Directive:** the transposition deadline - and the date on which the UK regulations will come into force.
June 2010	**Regulatory fees and levies:** the FSA will publish its final policy and fees for 2010/2011 – fee payers will be invoiced from June 2010 onwards on the basis of the revised policy and fees.
July 2010	**AIFM Directive:** plenary vote scheduled.

Third quarter 2010	**Retail Distribution Review:** new level 4 study material to be made available - trainee advisers may start studying for the new qualifications.
1 October 2010	**The FSA's liquidity regime:** the BIPRU 12 quantitative requirements are 'switched on' for mismatch banks and for those building societies which will be simplified ILAS BIPRU firms.
1 November 2010	**The FSA's liquidity regime: quantitative requirements:** the BIPRU 12 *quantitative requirements* are switched on for all BIPRU investment firms with net assets above £50 million (such firms, together with banks and building societies, being referred to as 'ILAS BIPRU' firms - the vast majority of BIPRU investment firms will not fall within this category and will be 'non-ILAS BIPRU firms'). The BIPRU 12 quantitative requirements will also be switched on for all branches. See our December 2009 briefing note: FSA Liquidity Standards for Investment Firms: http://www.traverssmith.com/assets/pdf/Legal_Briefings/fsaliquiditystandardsforinvestmentfirms.pdf
	The FSA's liquidity regime: overall liquidity adequacy rule: all BIPRU firms (including ILAS and non-ILAS BIPRU investment firms) will become subject to the new *overall liquidity adequacy rule* (BIPRU 12.2.1R) and the associated requirements in BIPRU 12.2. See our December 2009 briefing note: FSA Liquidity Standards for Investment Firms: http://www.traverssmith.com/assets/pdf/Legal_Briefings/fsaliquiditystandardsforinvestmentfirms.pdf

If you would like further information or advice, please contact Margaret Chamberlain, Jane Tuckley, Mark Evans, Tim Lewis or Nigel Barratt in the Financial Services and Markets Department or your usual contact at Travers Smith.

Details of our Financial Services and Markets Department are at: http://www.traverssmith.com/?pid=15&level=2

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New Year 2010

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