

Corporate & Financial Weekly Digest

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UK Government Consults of Financial Services Reform

On July 26, HM Treasury launched a consultation (*A new approach to financial regulation: judgment, focus and stability*) on the reform of the UK financial services regulatory regime announced by the Chancellor of the Exchequer in June, as reported in the June 18, 2010 edition of Corporate and Financial Weekly Digest.

The Government considers that reforms must focus on three key areas: (i) macro-prudential regulation; (ii) improved prudential regulation of individual firms; and (iii) improved consumer protection and markets regulation.

The consultation document contains detailed reform proposals and the Government also proposes to establish three new regulatory bodies:

- i. the Financial Policy Committee (FPC) designed to give the Bank of England increased power over macro prudential regulation and likely to be established on an interim basis before the end of 2010;
- ii. the Prudential Regulation Authority (PRA), under the control of the Bank of England/FPC, to be responsible for supervising banks, other deposit-takers, broker-dealers, investment banks, insurers and certain other financial institutions. The PRA will be headed by a Deputy Governor of the Bank of England, initially the current Financial Services Authority Chief Executive, Hector Sants; and
- iii. the Consumer Protection and Markets Authority (CPMA) which will regulate conduct of business.

The introduction of macro-prudential regulation is designed to correct a perceived prior lack of regulatory focus on systemic risk and the financial system as a whole.

The FPC is at the heart of the new system. Six of its eleven members will be from the Bank of England, and the Treasury will have a non-voting representative and a watching brief on behalf of the UK Government. The CPMA Chief Executive will also sit on the FPC. Along with the close cooperation between the FPC and the PRA, this is intended to ensure that potential systemic risks arising from activities monitored by the CPMA or the PRA will be taken into account in FPC decisions.

The consultation will close on October 18.

[Read more.](#)

Katten's June 18 edition of the Corporate and Weekly Financial Digest can be found [here](#).