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Ian Norman, 17 June 2010

In his speech to the The Lord Mayor's Dinner for Bankers and Merchants of the City of London, The Rt Hon George Osborne MP and Chancellor of the Exchequer announced, amongst other things, the break-up of the Financial Services Authority (FSA).

At the Annual Mansion House speech, the new UK Chancellor set about re-assuring the financial services industry about how they would be regulated under the Conservative-Liberal Democrat coalition. George Osborne's aims, he said, were to give the re-assurance required to allow the industry to succeed on the world stage and conquer emerging markets such as that of China. Whether the changes he has announced will bring about such success remains to be seen, but what are they?

Osborne has announced the following:

- The tripartite system involving the Financial Services Authority (FSA), the Bank of England and the Treasury is to be abolished;
- The FSA will cease to exist in its current form;
- The Bank of England will gain control of macro-prudential regulation as well as oversight of Micro-prudential regulation;
- A new regulator will be created as a subsidiary of the Bank of England, which will carry out prudential regulation (systemic regulation) of financial firms, banks, investments banks, building societies and insurance companies;
- A Financial Policy Committee will be set out within the Bank of England to make decisions on matters which affect the stability of the economy as a whole;

- A powerful new Consumer Protection and Markets Authority will be set up to regulate every financial services firm which provides services to consumers in the course of its business;
- A single agency will be created and devoted to tackling financial crime, which is a responsibility currently dispersed across a number of Government Departments and Agencies.

The transitional process will, according to Mr Osborne, be completed by 2012 and Hector Sants, the current Chief Executive of the FSA will oversee the transition and will become the first Deputy Governor of the Bank of England and head of the new prudential regulator.

Finally, the Government announced that it is establishing an independent commission on the banking industry, which will look at fundamental issues such as the structure of UK banking, competition in the market and how consumers and taxpayers can be sure of the best deal. Sir John Vickers, the former chief of the Office of Fair Trading and leading Economist at the Bank of England will chair the commission. It will be charged with providing many answers in respect of the financial sector but one thing it will not have to report on is the introduction of a bank levy and restraint on pay and bonuses; the Chancellor has already confirmed that this action is to be taken.

It is difficult to see exactly what these changes will lead to but one thing is for sure; it is a pretty stark reversal of the changes brought about in 1997 by the then incoming Chancellor, Gordon Brown. Given what is at stake, one hopes that the new coalition government has got it right, as we have already seen the price to be paid when it all goes wrong.