

UK Financial Regulations

Certificate in Mortgage Advice and Practice (CeMAP)

Certificate for Financial Advisers (CEFA)

Training Presentation Session One

Tips for passing your exams

- Study regularly at home
- Practice the questions regularly
- Take notes of your trainer's explanations and write them in your study guide
- Remember to **ASK** your trainer if you do not understand a point
- Read the IFS manual at least once.
- This material is relevant for all exams from 1st Oct 2010.

The changing face of UK financial regulation

- The Tripartite system of regulation introduced by Labour in 1997 (BOE, FSA + Treasury) to be discontinued.
- A new independent FPC (Financial Policy committee) to be established at the BOE. This will monitor and prevent large scale (macro) issues that can threaten the economy. The FPC will be accountable to parliament.
- A PRA (Prudential Regulation Authority), a subsidiary of the BOE will take action in response to issues raised by the FPC. They will conduct prudential regulation for deposit takers, insurers and investment bankers.

The changing face of UK financial regulation cont..

- The FSA will be dismantled by 2012, however a CPMA (Consumer Protection + Markets Authority) is to be created. The CPMA will regulate the conduct of retail + wholesale financial services firms.
- The CPMA will take responsibility of the FSCS. It will also maintain the FSA's responsibility of the FOS and will oversee the CFEB (Consumer Financial Education Body), their task is to improve financial capability.

Why the FSA regulated the residential property market

- Mortgages are THE single biggest financial deal any person will undertake in their life
- Mortgages are mega instruments used by millions of people
- Mortgages are the corner stone of the British economy
- Many customers were misled and cheated in the past
- Regulation began with the Financial services Act 86, today the system emphasis fairness, openness, honesty and integrity.

TCF Treating Customers Fairly

- Knowing the rules and regulations

Mortgage and financial Advice is all about

- Knowing the facts
- Addressing the clients needs
- Empowering the clients to make a decision
- Prioritisation of the client's needs
- **And finally, Treating the customer fairly**

Advisors

- Professional Sales People
- Honest and Trustworthy
- Competent and capable
- High Degree of Integrity
- Good Listeners
- Friendly and Fair
- Treat all Matters Confidentially

Functions of Money

- In earlier civilisation there was exchange by Barter. However, the complexity of life and sheer size of some transactions, made it difficult for people to trade goods they had to offer against what other people had to supply them. Hence a need for Money, a Common Denominator - against which the value of all products could be measured.
 - 2 Functions of money:
 - 1) Money is a medium of exchange. To be accepted as a medium of exchange it must:
(i) be divisible, ii) portable, iii) generally acceptable and iv) sufficient in quantity).
 - 2) Money serves as a unit of Account.
- ALSO
- Money is a store of value.

The Function of the financial Service Industry

Intermediation

- The transfer of funds from surplus to deficit sectors
 - Financial intermediary: An institution that borrows from the surplus sector to lend to the deficit sector
 - Disintermediation: Where lenders and borrowers interact directly, i.e. when a company issues shares to raise funds

The Function of the financial Service Industry cont...

Reasons for intermediaries:

- Geographic location: i.e. from south England to north England
- Aggregations i.e. Aggregates numerous small depositors to 1 large borrower
- Maturity transformation (from longer term borrowers or lenders to short term lenders or borrowers)
- Risk transformation (i.e. spread the risk of lending or investing over many borrowers or investments)

The Function of the financial Service Industry cont...

Risk Management Intermediation

- Another method of mitigating risk is through insurance.
- Shifting the burden of risk to minimise financial loss (i.e. insurance to share the risk)

‘Product sales’ intermediaries

- Bring together product providers and potential customers. These include FA’s, insurance brokers and mortgage advisers.

Financial Institutions

Bank of England (BOE) : Acts as banker to the Gov, supervises the economy and regulates the supply of money. Acts as the central bank for the UK

Functions of the BOE:

- Issuer of banknotes and coins (i.e. currency)
- Banker to the Government. Account lending if there is a deficit, or surplus lent out as part of general debt management policy
- Adviser to the Government: since 97 the BOE has set UK rates to help formulate monetary policy.

Financial Institutions: BOE

- Banker to the banks: all major banks have a/c's with the BOE, wielding great influence over rates in the MM's.
- Managing the UK foreign currency reserve on behalf of the Treasury.(Gold and foreign CCY reserves)
- Lender of last resort, making funds available when the banking system is short of liquidity.
- Regulatory functions will be returned to the BOE after the FSA is dismantled.

Financial Institutions

HM Treasury – Debt management office (DMO)

The BOE formally had responsibility to issue Gilts, but it was transferred to the DMO to avoid conflict of interest.

- The DMO manages the amount and type of government securities to issue to raise money for the government to cover deficits arising from more spending than tax revenue
- Arranges the issuance of ‘gilts’ to finance the government’s borrowing
- Gilts have different terms and varying periods of maturity

Banking Organisations

Proprietary organisations –

- Largest group of financial institutions
- Limited company, owned by shareholders who share in the company's profits

Mutual Organizations

- Building societies, Credit Unions and Friendly societies
Owned by members, not shareholders
Members are depositors and borrowers (Building Soc's)
With profits policy holders (Life Co)
Can determine how the organisation is managed through general meetings

Demutualisation

- Recently some Building societies have demutualised to become banks (PLC's).
- This change requires approval of it's members

Banking Organisations

Retail Banking

- Provides common services to personal and corporate customers (high street banks)
- Act as intermediaries

Wholesale Banking

- Raise money through interbank wholesale money markets (financial institutions lending to or borrowing from other financial institutions)
- Many financial organisations operate in both markets
- London Interbank Offering Rate (LIBOR) acts as the reference rate for the majority of Corporate lending. LIBOR rates are fixed daily and vary in term from over night to 1 year.
- Building Soc's: only permitted to raise funds up to 50% of their liabilities from Wholesale MM.

Banking Services

Money transmission

- Arrangements to move money such as ATM's, cheques, direct debits, standing orders, electronic transfers and credit card services
- Current accounts are used for transmission Clearing
- Basic bank a/c's appropriate for people receiving state benefits (no cheque book or O/D facility)

The process, at the end of each business day, settling between clearing banks – net settlement between all money owed and all monies received – the net amount owed or payable is settled through the a/c's held at the BOE

Banking Services cont...

Clearing

Few banks act as clearing banks to handle the net transfers at the end of each day. Clearing banks have established their own clearing systems in conjunction with other banks

Operational clearing systems to assist in the process, coordinated by the UK Payments Administration Ltd, formerly (Association of Payments and Clearing services (APACS)). It is an association of major banks and B/S's, it acts as an umbrella company.

Banking Services cont...

1. Cheque and Credit Clearing Company oversees the clearing of cheques and paper credits on a 3 day basis. The decline in cheque use may see this money transfer method withdrawn as early as 2018.
2. Bankers Automated Clearing Services (BACS) operated by Voca Ltd. This deals with the electronic clearing such as direct debits
3. CHAPS (Clearing House Automated payment System) provides electronic same day interbank transfer system for high value payments

Role of Government

European Union

European Parliament and Council of Ministers generally at the suggestion of the European Commission ADOPT

- Regulations which are binding in their entirety and directly applicable to all member states(unless have specific dispensation)
- Directives are binding as to the results to be achieved upon each member state, the objectives of the directive must be achieved within a specified time (typically 2 years) but exactly how they are achieved is left to national authorities in each state.