# London Update

UK Financial Services Regulatory Developments

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*This edition covers developments between 1 November and 30 November.*

## INTERNATIONAL DEVELOPMENTS

### FATF Reviewing Its Recommendations to Increase Transparency

On 3 November, the Financial Action Task Force (FATF) of the Organisation for Economic Co-operation and Development published a speech given by Paul Vlaanderen, FATF President, on 30 October, entitled "The Need for Enhanced Transparency". The speech focused on the need, emphasised by the current global financial crisis, to ensure that the vital parts of the FATF standards which are linked to transparency issues are fully effective. President Vlaanderen stated that FATF is reviewing three transparency related issues:

- **Customer due diligence obligations and beneficial ownership**—One of the main principles of the FATF standards is the obligation for financial institutions to identify their customers and any underlying beneficial owners. FATF is now considering whether its current standards are still the best tool for providing maximum customer transparency.
- **Transparency of legal persons and legal arrangements**—FATF will seek to improve the transparency of such persons and arrangements. This should provide regulatory and supervisory agencies with better and more timely access to beneficial ownership information.
- **Financial institution secrecy laws and cross-border exchange of information**—FATF will examine whether certain categories of laws potentially inhibit the implementation of the FATF recommendations.

To read the speech in full, click here.

## UK DEVELOPMENTS

### Regal Petroleum Plc Fined £600,000 by LSE

On 17 November, the London Stock Exchange (LSE) fined Regal Petroleum plc (Regal), a company listed on the Alternative Investment Market (AIM), the LSE's secondary market, £600,000. The sanction was imposed for numerous serious breaches of AIM's rules.

In particular it was found that on 11 separate occasions, Regal breached AIM Rule 9 by failing to take reasonable care to ensure that its announcements were not misleading, false or deceptive and did not omit material information. In a period running from 2003 to 2005, Regal had made a series of announcements to the market about a drilling opportunity in the Aegean Sea. During this period Regal's share price rose by almost 500% and it raised over £100 million through three separate placings on AIM. In May 2005, Regal announced that following testing on the drilling opportunity, the well was "non-commercial". As a result Regal's share price immediately fell by 61% amid significant press coverage, and the LSE initiated an investigation. The fine imposed is the highest in the history of AIM.

To read the LSE's announcement in full, click here.

## FSA Fines Former Stockbroker £24,000 for Market Abuse

On 17 November, the Financial Services Authority (FSA) published the final notice which it has issued to Alexei Krilov-Harrison, a former stockbroker at Pacific Continental Securities UK Ltd. The FSA has fined Mr. Krilov-Harrison £24,000 for market abuse relating to the use of inside information.

The FSA had found that Mr. Krilov-Harrison had received inside information about a publicly traded company relating to a major contract it was about to sign. During the 24 hours following receipt of this information, Mr. Krilov-Harrison encouraged several of his clients to invest in the company using the inside information as a sales tactic. The FSA found that Mr. Krilov-Harrison's actions were deliberate and motivated by a desire for profit.

To read the FSA's notice in full, click here.

## Government Announces Financial Services Bill

A new Financial Services Bill is one of the measures announced by the Government for the new parliamentary session. The main elements of the Bill announced on 19 November include:

- the establishment of a new Council for Financial Stability to be comprised of the Treasury, the Bank of England and the FSA;
- the strengthening of the FSA's powers, including the provision of an explicit objective to promote financial stability;
- the introduction of new rights for the FSA to take action, nationally and internationally, on remuneration; and
- requirements for systemically important firms to establish recovery and resolution plans that will make them safer and easier to wind down.

To read the announcement from the Government in full, click here.

## Walker Review Recommends Major Reforms to Bank Corporate Governance

On 26 November, HM Treasury published the final report and recommendations of Sir David Walker on the reform of corporate governance of the UK banking industry (the Walker Review).

The Walker Review was commissioned in February 2009 by the Chancellor of the Exchequer, the Secretary of State for Business, Innovation & Skills, and the Financial Services Secretary to the Treasury. Its terms of reference were to examine corporate governance in the UK banking industry and make recommendations in areas including the following:

- the effectiveness of risk management at board level, including the incentives in remuneration policy to manage risk effectively;
- the balance of skills, experience and independence required on the boards of UK banking institutions;
- the effectiveness of board practices and the performance of audit, risk, remuneration and nomination committees;
- the role of institutional shareholders in engaging effectively with companies and monitoring of boards; and
- whether the UK approach is consistent with international practice and how national and international best practice can be promulgated.

The Walker Review published a preliminary report on 16 July, after which followed a substantial consultation process with industry stakeholders and other interested parties. The 39 recommendations in the final report are intended to improve the performance of bank boards, increase the transparency of employee remuneration and incentives, and encourage institutional shareholders to become more involved.

Specific recommendations include:

- Chairman of the board to be subject to annual re-election, and board to consider transitioning to annual re-election for all directors
- A minimum working time commitment to be imposed on non-executive directors
- Non-executives to receive dedicated support and advice on business matters

- Non-executives to face tougher scrutiny in the FSA's interview process
- Significant deferred element in bonus schemes for all "high-paid" executives (i.e., those earning £1 million or more)
- Board level risk committees to have the power to scrutinise big transactions
- Increased public disclosure of certain information with respect to executives earning over £1 million
- Remuneration committees to scrutinise firm-wide pay, with particular reference to high-paid executives
- Financial Reporting Council to introduce a new Stewardship Code incorporating relevant elements of the present Combined Code and the Code on the Responsibilities of Institutional Investors. The aim of the new code is to encourage institutional investors and fund managers to engage banks' management more actively.

The final report omits a number of proposals which were in the preliminary report. Proposals that will not now be taken forward include having large investors subject to questioning by the FSA on their motives for selling bank shareholdings, and requiring institutional investors to enter into memoranda of understanding on collective corporate governance action.

The Chancellor of the Exchequer, Alistair Darling, said: "The Government strongly supports [the Walker Review] recommendations and will take steps to implement them as soon as possible." It is expected that new regulations to put the Walker Review recommendations into force will be introduced early in 2010.

Read more.

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