The Hundred Group
of Finance Directors

Investor Relations and Markets Committee

Financial Regulation Strategy
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

08 October 2010

Dear Madam / Sir

A new approach to financial regulation: judgement, focus and stability

We are pleased to submit our comments on the above consultation

Who we are

The Hundred Group is a non-political, not-for-profit organisation which represents the finance directors of the UK's largest companies, with membership drawn mainly, but not entirely, from the constituents of the FTSE100 Index. Our aim is to contribute positively to the development of UK and International policy and practice on matters that affect our businesses, including taxation, financial reporting, corporate governance and capital market regulation. Whilst this letter expresses the view of The Hundred Group of Finance Directors as a whole, they are not necessarily those of our individual members or their respective employers.

Our views

The Hundred Group is committed to supporting the competitiveness of the UK as an International leader of business.

Underpinning the competitiveness of the UK is the strength of the UK capital markets – the integrity, commerciality and stability of which continues to be vital to the position of the UK as a global, respected, financial centre.

We welcome the Government's review of the current regulatory structure governing the UK financial markets and believe that it is well timed and in the best interests of UK business as a whole. In times of financial stress or crisis a measured, reflective response is essential, as is the ability, when appropriate, to readdress fundamentally structures which are no longer effective.

Overall, we are supportive of the propositions made by Government in the consultation and of the ambition for a "twin peaks" regulatory framework, but raise in this letter two areas of concern.

First, we caution against the removal of the requirement that regulatory bodies should be mindful of their impact on both innovation and the global competitiveness of the market they are regulating. We fully support the position of Government that the primary focus of these bodies must be towards establishing stable, trusted markets with integrity. Furthermore we understand that at times decisions must, and should, be made to support stability over and above and at a cost to innovation and competitiveness. However, to remove the requirement for these bodies to have regard to these elements would, in our opinion, be ill advised.

In our opinion the benefit of objectives which can at some points create tension in a decision making process should not be underestimated – the ability to create a well thought through debate and full understanding of the implications of regulatory change is, in our minds, the essence of sound decision making.

We do not see the reintroduction of these policies as meaning that financial regulatory bodies should bow to the developments of innovation 'at all costs' or maintain a competitive position which would place the UK markets at risk of instability. Indeed we would consider this to be directly at odds with the objective of maintaining the current integrity of the market. Rather that being mindful of global implications and encouraging innovation where appropriate will provide the UK with a basis for sustained growth and development over the coming years.

Secondly, we set out our concerns for the proposed merger of the UKLA and FRC. In our opinion the objectives and operations of the UKLA would be more appropriately located within the CPMA markets division. The UKLA has, over a number of years, developed a robust, pragmatic and commercial approach to maintaining the integrity and competitiveness of the UK markets for listed securities. We strongly believe that these attributes and objectives have greater synergies with the markets division of the CPMA and that fragmenting the transactional and real time supervisory functions of UK primary and secondary markets regulation will have an adverse impact on the quality and efficiency of the UK capital raising process.

In addition, we are mindful that the UK capital markets regulatory framework is set at EU level and consider that the positioning of the UKLA as the primary markets regulator within the CPMA markets division would provide the UK with the strongest, most cohesive voice in Europe through the ESMA.

We set out our responses to specific questions in the Appendix to this letter.

Please feel free to contact me if you wish to discuss our comments on the proposals.

Yours faithfully

Peter Williams
Chairman
The Hundred Group – Investor Relations and Markets Committee

APPENDIX

Q10 The Government welcomes respondents' views on:

- **Whether, specifically, the requirement to have regard to potential adverse impacts on innovation or the competitiveness of the UK financial services sector of regulatory action should be retained**

We strongly support the retention of the requirements for the new regulatory framework proposed by HM Treasury to have regard to the desirability of facilitating innovation in connection with regulated activities, the international character of financial services and markets and the desirability of maintaining the competitive position of the UK.

We note and support the call for reconsideration by the Government of the appropriateness of the current responsibilities in light of the recent financial crisis. We also note the potential for tension of these responsibilities against the need for robust regulatory challenge to ensure the safety and soundness of risk-taking within the financial markets. We support the Government in challenging the current roles and responsibilities to ensure that the health of the UK financial markets are retained and promoted.

However, we believe that the objectives of innovation and global competitiveness are not at odds with creating and sustaining confidence in financial services and markets and market integrity.

In our opinion the UK markets have successfully sustained their global reputation through the financial crisis as a market with integrity and international gravitas. Contrary to the opinions expressed by Government we do not consider that the UK markets have suffered from a 'light-touch orthodoxy' nor a view that financial innovation has been supported 'at all costs'.

We believe that the reponsibilities of the PRA and CPMA should be focused on regulatory excellence, balanced with commercial prudence and with an eye to the global horizon.

The UK markets have grown, thrived and survived under this basis, allowing the associated users and members to benefit from its strength. In the current economic conditions we believe it would be wholly detrimental for any body regulating these markets to become internally focused without being mindful of the wider implications of any changes to that regulation.

We support the proposal that the primary responsibilities for the PRA and CPMA should be focused on their regulatory responsibilities and the need to promote confidence and stability. In addition, however, we recommend the reintroduction of innovation and global competitiveness to the secondary objectives to which the bodies must have regard to. We understand that at times regulatory bodies should, and must, make decisions which prioritise stability over innovation and/or competitiveness. However we believe that consideration of both will add a healthy 'tension' to debate and encourage a full and thorough understanding of post implementation consequences.

We note that the secondary objectives of both the PRA and CPMA currently include 'the principle that a burden which is imposed on a person should be proportionate to the benefits which are expected to result'. We believe that removing the requirement to look beyond the immediate impact on the person to the wider ramifications on the global stage could lead to an under estimation of the impact of regulatory burden.

In our minds the need for a strong regulatory environment is intrinsic to the global competitiveness of that market, and accordingly we strongly feel that the two should not be divided in order to prevent short sightedness of critical decision making.

Q17 The Government would welcome views on whether the UKLA should be merged with the FRC, as a first step towards creating a companies regulator under BIS.
We are of the opinion that the UKLA should not be merged with the FRC, but instead should, as the primary markets regulator, sit with secondary market regulation as part of the CPMA markets division. The operational synergies between the UK listing function and the rest of the markets regulator (market surveillance, investor protention, supervision of the trading infrastructure, policy and wider markets) are significant. It is also vital that the UK has a strong voice at ESMA. If the UKLA does not sit within the main UK securities regulator, the CPMA will only speak directly on secondary markets issues at ESMA. Given that the UK listing and markets framework is set at EU level this would limit the UK's effectiveness in representing it's interests in Europe.

We strongly believe that the objectives of the UKLA as the primary markets securities regulator are more suitably aligned with the CPMA markets division, and that the benefits to be achieved through working with the CPMA are significantly higher than the regulatory benefits suggested through a merger with the FRC. The UKLA is primarily a securities regulator rather than a companies regulator and of the 20,000 securities admitted to the Official List, only 6 per cent represent equity securities issued by UK companies, 74 per cent are UK and international corporate bonds and sovereign debt (gilts). The remainder includes structured products, debentures (which can also be counted as debt), warrants and preference shares.

The primary objective of the CPMA is to ensure confidence in financial services and markets, with particular focus on protecting consumers and ensuring market integrity. This objective is strategically aligned with the 2010 UKLA objectives to provide an appropriate level of protection for investors in listed securities, and to seek to maintain the integrity and competitiveness of UK markets for listed securities. In addition, the CPMA's responsibilities will include real time regulation of market conduct where firms and others (particularly corporate clients of financial services firms) participate in dealings in wholesale financial markets. We believe that the placement of the UKLA within the CPMA would therefore provide significant synergies in approach.

By comparison the objectives of UKLA are less aligned to the FRC policy orientated objectives of actively helping to shape UK policy and to influence EU and global approaches to corporate reporting and governance.

We are also mindful of the fact that the UKLA modus operandi of real time monitoring and response is more aligned to the activities of the CPMA and will provide practical synergies for the new Agency. This is also in diametric opposition to the current role of the FRC as a standard setter and post event check and balance on compliance.

As highlighted in HM Treasury's document, the Government recognises the crucial importance of the wholesale financial markets both to the operation of the financial system as a whole, and to London's position as a major global financial centre. We also note that the CPMA will be responsible for engaging with the new European Securities and Markets Authority (ESMA) to ensure that the right outcomes are delivered for London and the UK more generally. Given the increasing activity of the European Commission and of ESMA we would be concerned that the voice of the UKLA in Europe could be unintentionally marginalised through a move to the FRC. We support the ongoing competitiveness of the UK markets and highlight the need for UK representation in Europe to be considerate of the unique position of the UK market. We believe that this would be most effectively and efficiently done through the UKLA operating through the CPMA. Relying on dialogue between a separate companies regulator at the Department for Business and the CPMA to ensure the effective representation of UK markets policy in Europe would potentially dilute a key intention of the new 'twin peaks' model, which is to remove the possibility of no one body possessing the responsibility, authority or powers to represent or monitor the system as a whole.