

## WE ARE GOING TO MISS THE FSA

by [Steve Brown](#)

While both sides of the aisle will be lobbying for Senate votes for financial regulation here in the US in the coming weeks, in Britain, there is a similar debate going on. The U.K. government is also trying to pass their version of regulatory reform that looks similar to ours in many areas including consumer oversight, proprietary trading limitations, stricter law enforcement and the consolidation of power to the Bank of England. While seemingly similar, there is one very important change that is taking place that will have untold repercussions to banking in the U.K., and this change is instructive for US banks to understand. The change is the dissolution of the Financial Service Authority (FSA) and moves that entity's current responsibilities, including supervising banks, into an arm of the Bank of England which is tentatively dubbed the "Prudential Regulatory Authority."

The FSA is a standalone quasi-government entity which is a cross between the NY Fed, the FDIC and the SEC. While the Bank of England controls monetary policy and promotes the stability of the banking system, the FSA oversees the regulation, examination and law enforcement of financial institutions in London (which is home to most bank headquarters). So far, so similar, except the FSA largely represents a culture and a mandate that stands alone among the world's banking regulators.

This unique culture starts with the comparison of headquarters. The Bank of England occupies a columned granite building in the heart of the historic center (where it has been located for 276 years). The interior of the Bank of England is right out of central casting with its large regal portraits of past Chancellors of the Exchequer. The FSA on the other hand, is located in a sleek glass and steel tower in the trendy Canary Wharf area that opened in 1998 with an interior adorned with modern art. More important than the look of its headquarters, it is the attitude of the FSA which really sets it apart from most other regulators. The FSA was built on the belief that the industry of banking is not rooted in the past, but in the future. The cultural attitude of the FSA is the firm belief that to succeed, banking needs to keep evolving and it is incumbent on the FSA to not only manage this change, but to lead it.

The FSA was instrumental in reinvigorating London as a global financial center and led efforts in online banking, tax-advantage savings accounts, securitizations and derivatives. The FSA also supervised all financial institutions including asset managers, hedge funds, non-bank finance companies and insurers. This perch gave the agency a unique position that proved particularly effective for managing products and endeavors across all financial services.

While many regulatory bodies say they hire the best from the industry, it is the FSA that has the highest relative salaries of any in the world so that the brightest talent would be economically incented to come work for the organization. For example, a senior supervisor at the FSA can often make \$440k, more than double the salaries at the Bank of England and four times the salaries of comparative positions here in the US.

Perhaps the greatest difference between the FSA and most of the world's banking regulators, the FSA is guided by principles and not rules-based. This fact has traditionally given the regulator great flexibility and effectiveness in dealing with problems and supervising banks.

Unfortunately, the FSA's demise is a result of calls that the regulator had "too light of a touch" and lacked leadership in preventing the global financial crisis. While the FSA was perhaps too cozy with banks, given how we are facing some 300 new regulator guidance factors and 5,000+ pages of regulation as a result of financial reform, we highlight the FSA as a counter to the current environment. While we understand the swing of the global regulatory pendulum, the FSA is one entity that we really hate to see go in its entirety.

The FSA's statutory objectives include the need of the regulator to "foster innovation," "promote competition," "avoid unnecessary regulatory barriers to entry or business expansion," "maintaining the competitive position of the UK," and "hold senior management accountable for risk and controls within firms in order to guard against unnecessary intrusion by the FSA into a firms' business." How can you not love a regulator with that mandate?

## **BANK NEWS**

### **Grand IPO**

The Agricultural Bank of China is finishing tallying the results of the worlds largest IPO in what was expected to raise \$23B+. Previously, one of the 4 major banks owned by the Chinese government, AgBank is a mid-tier bank with questionable financial performance. Despite that, outside investors, including Rabobank and Archer Daniel Midlands, salivate at the bank's 24k branch structure and its role in lifting China's burgeoning middle class.

### **New ATM**

BSP Bank in Poland is the first bank to release a new ATM with advanced biometrics. Instead of fingerprints, the ATM looks at the reportedly more secure vein structure in a user's finger.

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