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## Financial Regulation in the UK – Proposed changes

On 16 June 2010, the UK Government announced that it will abolish the tripartite regime between the Financial Services Authority, the Treasury and the Bank of England. The FSA will cease to exist in its current form and all its functions will transition over a period of two years. Its main function of regulatory supervision of financial institutions will operate as a subsidiary of the Bank of England, and will be known as the **Prudential Regulatory Authority (PRA)**.

Other remaining areas of FSA responsibility will also move:

- Consumer Protection (consumer finance, credit cards, motor insurance and personal loans) will become a separate agency known as the Consumer Protection & Markets Authority and will include the FSA's Financial Ombudsman Scheme, The Financial Services Compensation Scheme as well as Financial Education.
- The Prosecution arm of the FSA will merge with the Serious Fraud Office and part of the Office of Fair Trading.

The Bank of England now has control of both macro and micro prudential regulation, covering all financial firms, including banks, investment banks, building societies and insurance companies.

The Bank of England is now responsible for regulating the overall level of lending in the banking system, known as macro-prudential regulation. The Bank is responsible for identifying and preventing dangerous increases (or decreases) in credit across the economy. To achieve this, the Bank will set up a new independent Financial Policy Committee (similar to the interest rate setting Monetary Policy Committee) and will look across the economy at the macro issues that may threaten economic and financial stability and it will take effective action in response to these issues. The committee would aim to tighten and relax capital standards in response to changing credit conditions.

Central Banks are lenders of last resort, and need to be familiar with every aspect of the institutions that they may have to support. So the Bank of England will also be responsible for the day-to-day supervision of individual institutions, known as micro-prudential regulation and this will operate as a subsidiary of the Bank of England and will be known as the Prudential Regulatory Authority (formerly FSA). This was previously the main function of the FSA.