LIBA

London Investment Banking Association

Annual Report 2004

LIBA is the principal trade association in the United Kingdom for firms active in the investment banking and securities industry. The Association represents the interests of its Members on all aspects of their business – both domestic and international – and promotes their views to the authorities in the United Kingdom, the European Union and elsewhere.

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CONTENTS

Page

INTRODUCTION BY THE DIRECTOR-GENERAL 3

REPORT OF THE CHAIRMAN'S COMMITTEE

International Developments including Basel Initiatives 4

Corporate Finance 10

Securities Trading 15

Compliance, Banking and UK Prudential Regulation 18

Accounting 28

Taxation 30

Personnel including Training and Competence issues 34

Administration, Contingency Planning and Business Continuity 34

COMMITTEES OF THE ASSOCIATION 36

MEMBERS OF THE ASSOCIATION 39

INTRODUCTION BY THE DIRECTOR-GENERAL
SIR ADAM RIDLEY

The account that follows in our Annual Report summarises our work during 2004 and the early part of this year. As previously, we are publishing the Chairman's Statement in a separate letter which will, where possible, be distributed together with this Report.

In my Introduction to last year's Report, I noted that the magazine "Compliance Reporter" had chosen our director, Timothy Baker, as Lobbyist of the Year. This year I am very pleased to report that Complinet – the well known information and software solution provider – has chosen LIBA as the recipient of its "Most Influential Trade Association" award, thus recognising the quality of the work of our staff as a whole. It is important to recall, of course, that we draw not only on the apparently tireless efforts of our own team, but also on the contribution to our work made by the numerous representatives of firms who participate in our committees and working groups. So I must also thank those individuals whose devotion to the collective good has contributed so much to LIBA's achievements.

Our work is becoming more and more a collective exercise. We have, as in many years past, benefited from help from, and collaboration with, City Law firms. We have intensified our work with other associations, both at home and abroad. This helps us all to cut back on duplication, to minimise the risk of discordant representations and exploit the benefits of broadly-based alliances. We are looking very actively at ways of taking this further, for example by sharing offices with closely related associations; and by devoting more resources to international policy work. In particular it will be important to contribute as much as we can to the debate about European Securities Markets policies in response to the very constructive Green Paper issued by Commissioner McCreevy on 3rd May; to contribute to the valuable initiatives of the International Council of Securities Associations (ICSA) on such matters as Bond Market regulation, money laundering and consultations with IOSCO; and to sustain our collective work with fellow securities associations in France, Italy and Sweden, to ensure that the development of stock exchanges and the post-trading network serves primarily the interests of market users of all kinds.

Looking ahead, we plan to complement all this with more attention to those LIBA Members who are not heavily involved in our Committees and Working Groups.

> "Besonders die Britische lobby, die London Investment Banking Association (LIBA), gilt in Brüssel als der Treiber im Hintergrund für europäische Integrationsthemen". [Börsen-Zeitung 20/4/05, Article by Markus Frühauf].
>
> This translates as:
> "In particular the British lobby, the London Investment Banking Association (LIBA) is regarded in Brussels as the driving force behind the themes of European Integration policy".

Sir Adam Ridley

Director-General May 2005

INTERNATIONAL DEVELOPMENTS INCLUDING BASEL INITIATIVES

Cooperation with other associations

LIBA continues to seek wherever possible to work jointly with other international, European, and UK associations, in order to share the workload and to present market participants' views from a consistent standpoint.

Lamfalussy implementation and extension

The European authorities' implementation of the Lamfalussy report has continued to focus mainly on "Level 1" (directives) and "Level 2" (implementing legislation). However, during 2004 the Committee of European Securities Regulators (CESR) and the European Commission began to plan for action respectively at "Level 3" (non-legislative coordination of national regulators' application of the legislation) and "Level 4" (the Commission's enforcement of Member States' implementation of the legislation).

In May we responded, with other associations, to CESR's consultation on its proposals for Level 3. CESR followed this consultation with its October "Himalaya Report" on supervisory tools that it could use at Level 3, on which we also commented with other associations in January 2005. We urged CESR to work within the Lamfalussy process and existing national structures of accountability to promote supervisory convergence, but warned against over-ambitious proposals for new formal structures at Level 3 that could undermine the necessary flexibility.

In January 2005 we responded jointly with other associations to the European Commission's preliminary assessment of the Lamfalussy process, and to the Inter-Institutional Monitoring Group's (IIMG) third report on the process.

We continue to seek further improvements to bring the operation of the new procedures into line with the template set out by the Lamfalussy Committee, and to ensure that they yield their full benefit. Outside the formal consultation process, we have continued to coordinate dialogue between a group of international wholesale market associations and the European Commission and CESR, so as to ensure that the lessons learned from practical experience of the new procedures are understood and applied.

Lamfalussy structures in banking

The Directive to establish a Lamfalussy structure of Level 2 and Level 3 committees for the banking and insurance sectors has now been adopted. Hence the Banking Advisory Committee (Finance Ministries) is now formally the Level 2 Committee and the Level 3 Committee is the recently established Committee of European Banking Supervisors (CEBS), which is comprised of banking supervisors and central banks. CEBS has a remit to facilitate convergence of supervisory practice, and has already published its first consultation papers covering its own consultation practices, outsourcing principles and high level principles for the Supervisory Review Process – i.e. "Pillar 2", which draws on

the previous work of the Groupe de Contact (the EU Group of supervisors). We responded to all these consultations.

We have stressed that the improvements we are seeking in the securities markets arrangements must also be applied in the application of the Lamfalussy approach to the banking sector. Overall, in both securities and banking regulation, we continue to seek an appropriate balance between democratic accountability and legislative and regulatory flexibility.

Application of the Lamfalussy process to wholesale business

In the Lamfalussy committees the UK's representation (one among twenty-five Member States) does not reflect the relative importance to the EU of the wholesale London markets and the approach to regulation that is necessary to sustain them. When there are technical divergences between the needs of wholesale business and the primarily retail focus of many other Member States' markets, the UK authorities should be prepared to insist on a distinct treatment, and the European authorities should give due weight to their opinion.

Assessment of the state of integration of EU markets

LIBA Members and staff participated both in the Expert Groups which the European Commission established to assess the state of integration of EU markets after the Financial Services Action Plan (FSAP), and in a conference in June to follow up the Expert Groups' reports. LIBA also responded in September to the Commission's request for comments on the reports. We supported the reports' main messages which stressed the importance of: focusing on consistent implementation of EU law; promoting the EU's international competitiveness; continuing to improve the application of the Lamfalussy arrangements; maintaining transparency in policy development; and ensuring that innovation is not inhibited – and that new legislation should only be proposed when this is the best way of responding to a well-evidenced need and is based on agreed principles of public policy. We also emphasised the importance of convergence of supervisory practices and coordination of supervision of international groups.

We will continue to pursue these themes in the context of the European Parliament's own-initiative report on this subject, in preparation at the time of writing, and when the European Commission publishes its expected consultation on the way forward in Spring 2005.

Markets in Financial Instruments Directive (MIFID)

MIFID will revise and expand the provisions of the current Investment Services Directive (ISD), which it will replace. Intended to improve the effectiveness of the ISD's single market regime, based on mutual recognition of "country of origin" regulation, it will also require EU Member States to introduce new or revised rules on a wide range of topics, including management and compliance arrangements, safeguarding of client assets, conflict management, definition of categories of client and counterparty, conduct of business, market transparency (covering both exchanges and two new categories of "multilateral trading facilities" and "systematic internalisers"), trade reporting, and transaction reporting.

In the early part of the year we, along with other associations, pressed the Council of Ministers and European Parliament to agree improvements to the flawed Common Position that the Council had adopted in December 2003. The final text of MIFID was agreed between the European institutions in April 2004, with some modifications to the Common Position. In the same month, the Directive entered into force on the publication of the text in the Official Journal, six months sooner than had been expected (to avoid translation problems connected with the expansion of the EU to twenty-five Member States on 1st May).

The need to delay implementation

The Directive was due to be implemented by the Member States two years after it came into force. It soon became apparent, however, that the period until April 2006 was far too short a time to put in place the Level 2 implementing measures prescribed by the Level 1 Directive, to transpose the Level 1 and Level 2 legislation into national law, and to enable firms to make the extensive systems and administrative changes that MIFID's provisions would entail. With a broad coalition of other associations, we set out to persuade the Commission, European Parliament, and Member States that the timetable which MIFID set was impossible to achieve in practice, and that they needed to allow more time if significant market stability, compliance, and enforcement problems were to be avoided. We therefore welcomed Commissioner McCreevy's announcement in January 2005 that the Commission intended to propose an amending directive to extend the implementation timetable by twelve months, so that firms would have until April 2007, rather than April 2006, to put new systems in place. We will continue to support such an amending directive, which is expected to be finalised by the end of 2005.

CESR's work

In January and April the process of developing Level 2 implementing measures under MIFID was launched when CESR published "calls for evidence" in response to two separate mandates from the European Commission requesting technical advice on what the legislation should prescribe. The purpose of these measures is to provide technical detail on the main Level 1 MIFID provisions. In response to both calls, we provided evidence jointly with a group of international and Nordic securities market associations. From June onwards, and continuing into 2005, we responded, with the same group of associations, to a series of intensive consultations by CESR on its draft technical advice to the Commission. In addition to written responses, we also participated in CESR hearings and organised other meetings with CESR officials to provide expert advice on market practice. At the time of writing CESR has finalised part of its advice on the first set of mandates, and the remainder of its advice is due to be finalised in April 2005, following further consultations on best execution, market transparency, and quoting obligations for "systematic internalisers".

Meanwhile, the Commission is starting the process of drafting the Level 2 measures themselves. We will continue to advise on and seek to improve the Level 2 measures as the European Securities Committee and European Parliament consider them during 2005.

Throughout the Level 2 process, we and other associations stressed that firms, exchanges, and other intermediaries must be able to provide the range of services

Level 2: Key themes

that investors and issuers demand, so that the Commission and CESR should not put in place measures that would be too detailed and prescriptive. We highlighted the dangers of unnecessarily compounding the already high level of detail in the Level 1 Directive itself, particularly the provisions relating to business for professional clients and with market counterparties. We stressed that such prescription could only damage the flexibility and international competitiveness of European markets. Also, given the large number of measures, it would strain the consultative process in a way that would harm the quality of the resulting legislation. We urged CESR and the Commission to focus on the most important priorities, therefore, and to minimise the level of legislative prescription. We also asked for sensible transitional arrangements to enable market participants to manage the necessary changes effectively.

At the time of writing, although there has been some scaling back of CESR's initial proposals, the level of prescriptive detail remains high in some areas. We will continue to stress the need to avoid over-prescriptive regulation of inter-professional wholesale markets and services provided to professional clients.

The areas where we are paying closest attention to ensure that the EU measures are proportionate and sensible, and that any consequent changes to national requirements are not harmful, are: management of conflicts of interest; handling of client orders and the best execution obligation; disclosure of trading interests on exchanges and "multilateral trading facilities"; trade reporting; and the definition of and quoting obligation on "systematic internalisers".

Basel

The Basel Committee finalised its "mid-year text" in June 2004. This is the text that will be used as the basis upon which the different G10 jurisdictions will develop their national implementation regimes.

When LIBA and the International Swaps & Derivatives Association (ISDA) visited Governor Caruana, the Chairman of the Committee, at the end of January 2004, he confirmed that Basel's immediate plan of action fell into three categories: urgent, to be completed for the mid-2004 deadline; urgent work after the mid-year deadline; and longer term work.

Trading Book Review

The Trading Book Review was regarded as being in the second category – urgent work after the mid-year deadline – and regulators were influenced to include it in the Basel work programme following high-level meetings with LIBA and LIBA Members. The Review, undertaken in conjunction with the International Organization of Securities Commissions (IOSCO), has been jointly chaired by senior officials representing both bodies and began with a survey of the Trading Book. Although the Basel Committee was anxious not to overcommit, regulators indicated from the outset that it would be desirable if the Review's conclusions were to be available to firms at the same time as the rest of the Basel framework. This implicit objective helped to shape the timetable from the outset, as any Basel decision would have to be mapped into EU legislation also.

Overall, for the most part the regulators have maintained good progress by orchestrating their efforts into three workstreams. Furthermore, the regulators

have maintained a relatively good dialogue with the industry (in particular the FSA has provided debriefing sessions at LIBA).

The three workstreams have been organised as follows:

- Reform of the potential future exposure regime for repos/OTC derivatives (Expected Positive Exposure) and Cross Product Netting;
- Short Term Maturity and Double Default;
- Illiquid Positions/Concentration/Boundary/Unsettled Transactions.

The area where there has been least dialogue so far between regulators and the industry has been the third element: here there is most uncertainty on the preferred way forward and regulatory thought seems to be least developed.

Future work by the Basel Committee

The Basel Committee will revisit the definition of capital as part of the longer-term agenda. This work will probably concentrate on the treatment of innovative instruments, and will be a major initiative. The second major area that the Basel Committee is considering is the treatment of liquidity. This will build, in the first instance, on work being carried out by the Joint Forum. The European Commission is looking closely at both initiatives and is likely to take forward any proposals into the EU legislative framework.

EU work on capital

Two directives have to be amended in order to translate the Basel framework into the EU legislation – the Consolidated Banking Directive and the Capital Adequacy Directive – and the legislative proposal to bring this about is often referred to as the Capital Requirements Directive (CRD). The Commission released its proposal in July 2004, and the Council of Finance Ministers – ECOFIN – maintained a very strong momentum under the Dutch Presidency to reach an informal agreement. The European Parliament now has to issue its own report and proposed amendments on the draft text.

A number of significant improvements that we sought were covered by the ECOFIN amendments. These successes have been due not least to our strong relationship with HM Treasury and the FSA and the constructive approach that has been taken by the authorities. Strong collaborative and cooperative relationships with fellow associations were also critical to the success achieved. We also received further useful clarification on some important aspects of the proposals from direct contacts with the Commission Services.

Trading book revisions

Our key priority throughout the negotiation has been to ensure the adoption of the trading book revisions for the same date of implementation as the rest of the revised framework, and we have been successful in achieving broad consensus that this objective is desirable and should be achieved.

LIBA's main concern clearly remains that the outcome of the Trading Book Review should be incorporated into the legislation. However there are also other important technical issues to consider. The scope of application of the

Supervisory Review Process ("Pillar 2") is also important – and highly political. It is likely that this issue will be revisited even once the Directive is finalised.

Other prudential developments

Our work on other prudential developments is summarised below in the Compliance and UK Prudential Regulation section of this Report.

Credit Rating Agencies

Credit rating agencies have attracted a great deal of interest from both legislators and regulators in the past eighteen months, both in the EU and the USA. Following the European Parliament's work in 2003/4, CESR issued a "call for evidence" on credit rating agencies in July. This sought to collect information that would help CESR to draw up the advice requested by the European Commission on possible legislative measures. This was followed, in November, by a CESR consultation on the regulatory measures that might be applied to credit rating agencies in Europe. Much of the substance of CESR's proposals was drawn from the work done by IOSCO, resulting in the IOSCO Code of Conduct Fundamentals for Credit Rating Agencies, published in final form in December. The Code, which currently is voluntary, provides a thorough and pragmatic framework in which credit rating agencies can operate, and specifies good practice in handling conflicts of interest. We submitted a response to CESR in February 2005, jointly with other associations. Broadly we supported CESR's conclusions, whilst urging them to be more explicit about endorsing the IOSCO Code. During 2005 we will follow up to see how the various agencies seek to implement the Code's provisions.

European contract law developments

Following a 2003 consultation, and despite much scepticism and concern, the European Commission has carried forward work on a possible voluntary frame of reference for a European contract law. The CBI and Law Society are in the lead in monitoring the Commission's activities on this subject. We have continued to stress that the existence of Community law, conflict of law instruments, detailed regulatory requirements, and agreed standard contract terms for cross-border contracts, mean that in wholesale financial services prescriptive measures to address divergences in different countries' contract law would be unnecessary and costly, and would damage Europe's international competitiveness. Any action that the Commission takes, therefore, should recognise the differences between consumer and professional markets. Above all, any actions proposed must not disturb the existing and well-functioning contractual relations on which financial instruments are based.

Other issues

Other LIBA submissions

Other work on initiatives brought forward by international bodies has included responses to the IOSCO paper on consultation policy and procedure, the Joint Forum consultation on outsourcing, a Basel Committee consultation on the compliance function in banks, and the proposed US interagency statement on complex structured finance activities.

Within Europe, firms have raised concerns about the extent to which some Member States have sought to apply their conduct of business, fees and reporting rules to cross-border business: we have asked the European Commission to consider whether this can be justified given the position under the Directives and Community law more generally.

Our work on the implementation of other EU financial services measures, including the Market Abuse and Takeover Directives, is summarised below in the Corporate Finance section of this Report.

CORPORATE FINANCE

Overview

There has been no let-up in the Corporate Finance Committee's work this year. Issues covered have included the Listing Review, implementation of the Prospectus Directive, a range of proposed changes to the Takeover Code, substantive discussions regarding the imminent implementation of the Takeover Directive, and consideration of CESR's draft advice to the European Commission on the implementation of the Transparency Directive. In addition, the Committee has focused on the issues of directors' and auditors' liabilities and related matters of corporate governance in both the EU and UK. In particular, the Committee has had to deal with the substantial changes that have been proposed to the Listing Handbook and the Takeover Code.

Listing Review

The FSA's CP04/16 raised important issues of both process and substance. The most important issues of *process* were the very short time frame allowed to study the proposed principles, rules and guidance; the decision to withdraw existing guidance without specific explanation or specific consultation; and the failure to identify and explain all the proposed rule changes. There were two main issues of *substance*. First, the FSA proposed a listing principle which arguably could require issuers to monitor market comment and rumour respecting their shares and to correct erroneous perceptions in the public domain which might affect the price of their shares, even where the rumour or speculation originated from another party. Second, there have been serious concerns about aspects of the proposed sponsor regime, as explained below.

Our response was prepared jointly with the British Bankers' Association (BBA). We pressed for amendments to the new draft of proposed Listing Principle 4 relating to issuer disclosure of inside information as defined. As drafted, the Principle moves beyond the well established concept that issuers must communicate with shareholders in a clear manner to avoid misleading the market and proposes a new obligation requiring issuers to communicate with the market to avoid the creation or *continuance* of a "false market". This is "super-equivalent" to both the Prospectus Directive and the Market Abuse Directive (MAD). No definition is offered for the term "false market" and no guidance is given about the way enforcement of the proposed principle will be approached given that, arguably, each issuer could be required to monitor media and the markets to determine whether a false market exists.

Disclosure rules and MAD implementation

Along with the revision of the proposed Listing Principle 4, the Committee focused considerable effort on the implementation of the MAD. The Disclosure Rules (part of the Listing Handbook) were brought forward in the joint HM Treasury/FSA consultation on the implementation of MAD. The Corporate Finance Committee led the review of this aspect of MAD implementation for the joint BBA/LIBA response and concentrated on the proposed rules governing the process and timing of the decision on whether a public announcement is required with respect to information which may be deemed inside information. We argued that issuers need not respond to rumour or speculation that does not emanate from themselves or from their agents or advisers and the FSA has accepted this view. In addition, we argued that an issuer should not be subject to strict liability for a breach of the Disclosure Rules if one of its agents or advisers breaches a confidentiality agreement. The FSA has accepted our view that, if an issuer is not involved itself in a breach of the rules, it will have met its responsibility to ensure the confidentiality of inside information where it has agreements with agents and advisers that confidentiality be maintained and where its employees are aware of its policies to maintain confidentiality.

The role of guidance

The issue of guidance withdrawal (for example, the withdrawal of most of the Guide for Price Sensitive Information without specific consultation) remains a very important matter for Members, particularly when the wording of many, if not most, listing rules will have been changed. With new rules, the operating parameters for issuers and their corporate advisers are rendered less certain and this will clearly lead to higher legal and compliance costs at least until norms are re-established. We argued that the provision of guidance would have reduced this problem, and the UKLA/FSA has agreed to provide additional guidance on the proposed rules and in "LIST!" (their publication for issuers) which now appears to be required reading.

Proposed sponsor regime

The proposed sponsor regime would have greatly increased the responsibilities of sponsors. As originally drafted, sponsors would be required to notify the UKLA/FSA if there is a possibility that any detriment to investors could occur as a result of an issuer's admission to trading, and "detriment to investors" was not defined. We were concerned that any price decline could be viewed as a detriment to investors, even though an issue will always be subject to a risk of decline in price. We argued that this proposed requirement should be withdrawn because there was no precedent for it and no need had been demonstrated. The UKLA/FSA has agreed to provide a policy statement to address these concerns.

The proposed regime would also require sponsors to satisfy themselves that all directors of an issuer *understand* the "nature and extent" of their duties under the listing rules (currently sponsors have to *explain* duties to directors) and to disclose to the FSA any information relating to the sponsor or the issuer which is of a nature of which the FSA would reasonably expect notice. Such provisions would not impose clear requirements and are open to retrospective application. The UKLA/FSA have indicated that changes will be made to the proposed rules to address these concerns.

It is worthy of note that we have had several positive meetings with the UKLA/FSA drafting team on the Listing and MAD consultations. We are pleased

to report that we have good reason to expect that sponsor responsibilities will be brought closer into line with current practice and that the inside information rules will allow due discretion to issuers, sponsors and corporate advisers without diminishing investor protection and fair and efficient markets.

Prospectus Directive implementation

UK implementation

The Prospectus Directive was adopted in November 2003, and Regulation (CE) 809/2004 was adopted by the European Commission in April 2004. This regulation has been "copied out" in large measure in the regulations being finalised by HM Treasury – after consultation – to effect the necessary amendments to legislation in the UK. Pursuant to these changes, the UKLA/FSA will promulgate changes to the Listing Handbook which will now have Prospectus Rules, Listing Rules and Disclosure Rules (as discussed above).

For non-EU issuers, however, there is potentially a continuing problem that stems from the provisions governing their choice of "home" Member State. The confusion results from uncertainty as to which definition of making an offer to the public should apply – that of the new Directive or that of the Member State before implementation of the Directive. Non-EU issuers will be deemed to have irrevocably "chosen" their home Member State by offering to the public or having their securities admitted to trading in a given Member State after 31st December 2003. There is the risk that such an issuer will not realise that it has "chosen" a home Member State and that it will subsequently publish a prospectus approved by the "wrong" Member State. This would be an illegal act and open the issuer to potential liability to purchasers. At the time of writing further efforts are being made to clarify the position.

Takeover Panel issues

The Chairman of the LIBA Corporate Finance Committee is a member of the Panel, as is the Chairman of LIBA, and we have had a constructive dialogue with the Executive – and helpful briefings – on many issues during the year.

Takeover Directive

The implementation date of the Takeover Directive is 20th May 2006. The DTI will issue a public consultation in the first quarter of 2005. Our understanding, at the time of writing, is that the Panel will become a statutory body and the Takeover Code will be authorised under statute. Principal concerns are that the Panel should remain the sole interpreter of the Code, that the scope for litigious intervention in takeovers should remain limited, and that the Panel's constitution should preserve its flexibility and pragmatism.

Takeover Code consultations

We have responded to the following consultation papers from the Takeover Panel:

- PCP 2004/01 – Put Up or Shut Up and No Intention to Bid Statements;
- PCP 2004/02 – Possible Offer Announcements;
- PCP 2004/03 – Market Related Practices: our work on this important consultation is covered in detail below;
- PCP 2004/04 – Conditions and Preconditions (also discussed below).

The Corporate Finance Committee also reviewed the Panel's paper discussing the advisability of withdrawing the Subsequent Acquisition Rules (SARs). The Committee decided that there was no objection to the cessation of the SARs regime, if that were proposed by the Panel. Our understanding is that the Panel has decided not to make any changes to the SARs in the light of concerns raised by the CBI and other respondents.

PCP 2004/3 – Market Related Practices

A special working group was established, advised by Clifford Chance, to prepare LIBA's response to the wide-ranging PCP 2004/3 consultation. Our Corporate Finance, Securities Trading, and Compliance Committees approved our submission and a LIBA team subsequently held a series of constructive meetings with representatives of the Takeover Panel Executive to discuss the major points we had raised.

We stressed Members' concerns regarding the proposed presumption of concertedness for any corporate adviser who has an ongoing mandate or advisory role with a party to a takeover or any connected party. In particular, we objected to the proposal that such corporate advisers would need to have the approval of the Panel to engage in any Code-sensitive transactions, even where the adviser had "stood down" from the takeover (or had never "stood up"). The LIBA team demonstrated that the effective freezing of an investment bank's activities – based on what might be a dormant relationship with a party – would, until the Panel agreed to lift the freeze, constitute a substantial, unwarranted and costly interruption of the bank's activities. It would also introduce an onerous duty on the Panel to deal with numerous requests from investment banks. We suggested to the Code Committee that a more definitive and specific rule be substituted for the blanket presumption of concertedness based on a presumed community of interest. We understand that the Code Committee will be adjusting the proposed rules to provide greater definition.

LIBA voiced Members' concerns regarding the proposals to require unconnected parties to disclose securities borrowing/lending transactions and to bar connected, non-exempt parties from effecting any securities borrowing or lending activities. (Currently, under the Code, there are no reporting requirements or prohibitions of such activities.) We are pleased to report that the Code Committee has decided not to proceed with this change at this time.

LIBA raised concerns about the proposed changes to Rule 8 relating to the public disclosure by significant investors of contracts for differences (or other derivatives) referenced to shares where the aggregate position of an investor (in the shares, CFDs and other derivatives referenced to shares, plus options on the shares) exceeds 1% of outstanding shares. We also expressed concerns about the proposal that market-makers be required to disclose their sales of CFDs and other derivatives referenced to relevant shares, and options on relevant shares, as a costly duplication of reporting – given the existing FSA reporting framework (SABRE) – which would entail extensive systems enhancements by market-makers. The Code Committee decided not to require routine reporting by market-makers, and accepted LIBA's suggestion that daily transaction reporting through the FSA's SABRE system should be refined so that the Panel would be

able to extract the necessary information for monitoring purposes. Our understanding is that the Panel is now discussing its needs with the FSA and, at the time of writing, the Code Committee is considering LIBA's suggestions regarding the proposed trigger levels for disclosure by significant investors.

PCP 2004/4 – Conditions and Pre-Conditions to an Offer

PCP 2004/4 covered the use of firm offers under Rule 2.5 and possible offers under Rule 2.4. The Code Committee considers that firm offers should be definite in the minds of shareholders and investors. The PCP proposed that firm offers should not contain preconditions except those which pertain to required regulatory approvals by independent agencies (for example the OFT) or which pertain to necessary financial arrangements which cannot reasonably be put into place before a lengthy regulatory process is completed. The PCP also proposed that conditions (as opposed to preconditions) should remain subject to a materiality test considered by the Panel, but noted that the Panel would consider specified factors: whether the conditions had been negotiated/agreed between the parties, whether the condition is clearly described in the offer document as such, and whether the condition is objective.

LIBA argued that other objective preconditions should be allowed in a Rule 2.5 announcement, because this would increase the certainty in the minds of shareholders that an offer will be made if the precondition is met, since there would then be an obligation to do so. This is substantively different from a preconditional announcement of an offer under Rule 2.4 which must state that, even if the precondition is met, there is no obligation to make an offer. In LIBA's view the proposal to disallow a wider range of preconditional firm offers is a detriment to shareholders and a denial of commercial prerogative to offerors, particularly in a contested bid. The Panel has indicated that it may allow other preconditions in firm offers but only with the prior approval of the Panel.

Implementation of the Transparency Directive

The Transparency Directive was adopted on 15th December and, at the same time, CESR published the second part of its draft advice to the European Commission. This consultation focused on the reporting of control of substantial voting rights at mandated levels (5%, 10%, 15%, 20% and so on) including the detail and form of reports.

Response to CESR

Our response raised serious concerns that the process contemplated in the draft advice is unduly onerous to issuers and not conducive to the most efficient regulatory oversight. Particular issues include the scope of the market-making exemption and the procedure for claiming the benefit of the exemption. In addition, the amount of information to be disclosed by investors under the draft advice is super-equivalent to the requirements of the Directive. Whereas the Directive requires disclosure when an investor reaches a specified trigger level of control, CESR suggests that full details of the transaction involved, including the counterparty's identification, should also be disclosed. This would be extremely costly to implement and is not proportionate given the Directive's objectives.

Market Abuse Directive

Joint work on UK implementation

In addition to the Listings issues summarised above, LIBA and the BBA worked closely on a range of other difficult questions posed by implementation of the MAD. Our joint work led to a major submission in response to the authorities' joint consultation paper, which raised a number of practical points which we felt the UK authorities should address. The authorities responded positively where they could and we continue to work on a small number of outstanding issues.

Corporate Governance and other issues

Both the DTI and the European Commission have been reviewing the accountability and liabilities of directors and auditors. There is a concern that the growing perception that liability risks for directors and auditors are rising could well lead to a shortage of qualified candidates for these roles. On the other hand, the Parmalat case and others have reinforced the need to reassure the public and investors that accountability in the boardroom and on the part of auditors (as well as corporate advisers) is real.

LIBA supported recommendations, since implemented, that allow companies to indemnify directors against civil liabilities to third parties (not to the company) and to allow companies to pay legal defence costs as they are incurred by directors (subject to clawback in certain cases).

We have opposed the capping of auditor liability, as was initially proposed but not adopted, and we voiced concerns about allowing companies to limit an auditor's liability by contract unless the limitation would apply to others subject to joint and several liability with auditors such as corporate advisers. But we also recognised the arguments for the introduction of a proportionate liability framework to replace the current law of joint and several liability.

Lastly, LIBA's request for UKLA/FSA guidance for issuers in relation to their conduct vis-à-vis research analysts resulted in an article in LIST! which cautioned against undue issuer pressure on analysts regarding the content of their opinion of the company. Issuers were discouraged from using unfair tactics to influence analysts' views (for example, excluding an analyst from briefings because the analyst's views are unflattering). The FSA has confirmed that it will maintain a watching brief regarding this type of conduct by issuers. (Our work on analysts and conflicts of interest more generally is summarised below in the Compliance and UK Prudential Regulation section of this Report.)

SECURITIES TRADING

In 2004, the Committee's work covered three broad themes: market structure issues – including those summarised above in the International Developments section of this Report dealing with the MIFID – relationships with exchanges and responses to regulatory initiatives on analysts and conflicts of interest (discussed below in the Compliance section of this Report).

Relationships with Exchanges

We deepened and widened our relationships with exchanges. The deepening took place through a dialogue which extended from exchange fees to governance

questions. Both the London Stock Exchange and Deutsche Börse reformed their user consultation structures during the year, but the impact of these changes remains to be seen.

The widening took place in two ways. We widened our focus on fees to cover exchange traded derivatives as well as cash products. We also widened the number of exchanges with whom we have a structured dialogue to include virt-x, the Nordic region and the Borsa Italiana group. The announcement on 13th December of a possible offer by Deutsche Börse for the London Stock Exchange initiated a public debate which touched on a number of the questions we have been considering, particularly the question of how a profit-maximising exchange operator should take account of users' concerns. At the time of writing, the possible offers from both Deutsche Börse and Euronext have been referred to the Competition Commission in the UK, so this is not the place to comment further.

Benefits to users

The exchanges have delivered a range of benefits to users during the year. The London Stock Exchange began trading a range of Dutch cash equities in May 2004, using common clearing and settlement infrastructure, in contrast to the Deutsche Börse offering for the Dutch market, which used the German infrastructure with a link to Euroclear Netherlands. These initiatives triggered tactical price discounting by Euronext, the incumbent. The London Stock Exchange also introduced revised pricing for order book securities in a way which resulted in the benefits of growth being shared by shareholders and users. The London Stock Exchange's other initiatives included a new form of pricing for its Dutch service, which provided an incentive to display orders to the market, and cuts in trade reporting fees in response to competitive initiatives from virt-x.

The Deutsche Börse group unbundled its charges for the trading, clearing and settlement of cash equities. Deutsche Börse also introduced Automated Trading Programme (ATP) incentives for automated trading on the cash order book, XETRA, during 2004 and planned to incorporate ATP tiered discounts in 2005. Eurex, owned by Deutsche Börse and the SWX Exchange, revised the pricing of equity derivatives, introducing a cap on the fee for large trades, which we hope it will extend to equity index products as well as fixed income. LIBA Members engaged Eurex in a constructive dialogue regarding the introduction of the AMM Automated Market Making scheme for 2005. In addition to the tactical price cuts referred to above, Euronext introduced more permanent price cuts and revised its tariff for 2005, maintaining a distinction between Dutch equities and other markets, apparently as a result of competitive pressure.

Borsa Italiana revised its 2005 fee schedules in April and has undertaken to engage with its users in a dialogue on tariffs for 2006.

The SWX Exchange, owners of virt-x, continued its practice of paying a rebate to members in the fourth quarter, based on volumes in the year to date.

Our exchange fees work on both cash and derivative products has been supported by consultants, Molten, to whom we are grateful.

Other initiatives

We continue to work on a range of initiatives which are designed to benefit users through innovation and, where appropriate, competition between exchanges and between exchanges and other platform providers. These include over-the-counter alternatives for exchange traded derivative products, which have the potential to bring financial and operational benefits.

Clearing and settlement

Our Settlement Committee considered issues arising from cross-market developments and European policy as well as a range of questions specific to individual markets.

Members of the Committee contributed to LIBA's work on the principles to be observed in any consolidation of market infrastructure operators. This culminated in the important joint press release by five European trade associations on 3rd February 2005.

EU initiatives

EU clearing and settlement policy continues to develop along broadly appropriate lines. The European Commission published a Communication in May 2004 setting out a range of initiatives to improve cross-border settlement arrangements and outlining plans for a framework Directive. We welcomed the initiatives but argued forcefully against a new Directive. After considering the responses to the Communication, the Commission committed itself to an impact analysis before bringing forward any legislative proposals. A draft report being considered by the European Parliament expresses scepticism about the need for a Directive, though this may not be the Parliament's final opinion. As foreshadowed in the Communication, the Commission is also leading work to remove the barriers to cross-border trading, an exercise in which LIBA and our Members are involved.

Other developments

Euroclear is engaged in a very thorough and intense consultation programme, as its two major projects gather pace. The first is ESES, a programme to harmonise settlement arrangements in the Euronext markets; the second is the Single Application Platform, which will include UK and Irish securities as well as the international fixed income market. LIBA Members welcome this process, though there is concern about the volume of material requiring careful consideration.

Among the various specific issues which the Committee discussed, the measures taken to improve settlement performance in Italy and the successful resolution of concerns about the Swiss fining regime are worthy of note.

Fixed Income Markets Committee

In December LIBA established a new committee, the Fixed Income Markets Committee. Membership is in two parts. The main part is drawn from the LIBA membership, with a heavy weighting of European banks and several US banks. The second part is made up of other trade associations, representing both sell-side and buy-side institutions. At the time of writing, the International Primary Market Association (IPMA), the International Securities Market Association (ISMA), the Investment Management Association (IMA), the Association of British Insurers (ABI) and the BBA are members.

The Committee's initial work

The initial focus of the Committee will be to review the operation of the secondary fixed income markets in Europe, to assess their efficiency from both a customer and dealer perspective. In the MIFID the European Commission has been charged to report on a possible extension of the Directive's transparency provisions to markets other than equities. The Commission proposes to look first at extending these provisions to the bond markets. The Committee's work will therefore provide the basis for the associations to develop a view on this proposal, and to contribute to the Commission's report on the bond markets. The Committee will in addition act as a forum for agreeing policy positions on other issues affecting the fixed income markets.

Prime Brokerage Committee

The Committee considered a range of issues during the year. The principal achievement was the development of a relationship with the FSA which enabled both sides to develop a deeper understanding of the concerns of the other. At the time of writing, we are cooperating in a further effort to provide data on exposures to hedge funds.

COMPLIANCE, BANKING AND UK PRUDENTIAL REGULATION DEVELOPMENTS

Overview

Other sections of this Report cover our work on a range of issues stemming from the EU and other international fora – including work on proposals for implementing directives from HM Treasury and the FSA – as well as our intensive work with the regulators on reforming the capital adequacy regime which applies to banks and investment firms. Domestically, we have had to deal with proposals to make important changes to the listing regime (as summarised above in the Corporate Finance section of this Report), and there has been little let-up in our work on the FSA's wide-ranging proposals on analysts, conflicts of interest and unbundling of fees. Our Report last year commented on the implications of the way aspects of these initiatives had been handled for the FSA's approach to consultation and cost-benefit analysis on matters relevant to the international business undertaken by firms in London.

At the same time we have continued to maintain an overview of the FSA's relationship with LIBA Members, for example our dialogue about enforcement and service standards issues and about the role of "Dear CEO" letters as a method of communicating the regulator's priorities. We have also responded to consultation papers in all cases where these have covered changes to the FSA's rules that are relevant to our Members' business.

In parallel, we have continued to discuss the need for amendments to parts of the Financial Services and Markets Act with HM Treasury as the review of the legislation has been taken forward.

Overall, we had hoped that the new organisation structure at the FSA which took effect in April 2004 would help foster a clearer focus on wholesale market issues – and our experience so far suggests that our optimism was justified

(despite this, there have of course been occasions where we have not agreed with the regulator's decisions).

Our Director-General and Chairman have maintained LIBA's programme of meetings with senior FSA officials and, at a working level, we are increasingly confident that our relationship with the new capital markets sector team will help to avoid some of the misunderstandings that have arisen in the past.

Firms' day-to-day relationship with the FSA

Firms have continued to draw to our attention issues arising from their day-to-day relationship with the FSA and, where a matter appears to have general implications for Members at large, we normally expect to pursue the issues further. In the course of the year there were a number of service standard issues that we raised in this way – and on this front the FSA is expected to continue to broaden the range of commitments to which it aims to adhere – and we also participated in the FSA's Handbook Users Group. The Group assisted in the development of very helpful changes to the electronic version of the rules, and the website, which should make the FSA's material much more accessible to firms.

These were welcome steps but one regrettable development in the year, which we had not expected given the previous discussions, was the FSA's decision not to renew the "waiver with consent", from which a number of LIBA's largest Members had been benefiting, that applied to some of the periodic statement rules. As a result, some firms have had to apply for individual waivers (although our impression is that these have been processed promptly and sympathetically). More positively, the FSA accepted a number of the recommendations that we had made in response to their consultation on the development of transactions monitoring (DP 25) and agreed that the method of funding – which requires securities and futures firms alone to meet reporting costs – should be reviewed in due course.

Arrow Review

During 2005 the FSA will be conducting a wide-ranging review of the Arrow process. This is a welcome initiative. Members remain strongly supportive of the regulator's risk-based approach to supervision, but there are areas of the process that can be improved and we look forward to explaining firms' concerns to the FSA. One issue that we will wish to explore, in particular, is the FSA's approach to establishing capital adequacy requirements for the smaller banks.

City Liaison Group

LIBA has continued to act as the Secretary to the Financial Services and Markets Legislation City Liaison Group (CLG), the other members of which are the BBA, International Swaps & Derivatives Association (ISDA), Futures and Options Association (FOA), IPMA, IMA, ABI, Clifford Chance LLP, Freshfields Bruckhaus Deringer and Linklaters.

Enforcement issues

This Group has taken forward the dialogue with the FSA about firms' concerns about aspects of the regulator's approach to enforcement cases, and we have also had bilateral discussions with Enforcement Division. One outcome was that the FSA agreed to produce a note on the "benefits of cooperation". This confirmed that there can be cases where rule breaches have been identified but where a firm's positive attitude allows the FSA to conclude that no disciplinary action is necessary. This initiative was helpful because, prior to publication of the note,

the material on the benefits of cooperation that was publicly available was limited to general information about discounts on fines.

Concerns on other issues continued, however, and members of the CLG agreed that they should meet to discuss the implications of the Financial Services and Markets Tribunal (FINSMAT) decision in the Legal & General case. In the event, the FSA announced that it would launch a review of its enforcement processes and, at the time of writing, the Group is preparing a submission in response, with Allen & Overy, Norton Rose, Simmons & Simmons and Slaughter and May also participating. An important theme is likely to be the extent to which changes in the FSA's procedures are necessary so that an objective assessment of the issues identified in an investigation can be undertaken before a case is referred to the Regulatory Decisions Committee (RDC). Other issues are likely to include the importance of avoiding procedures which might discourage self-reporting by firms – for example, the participation of enforcement staff in supervision work seems unlikely to be helpful on this front – and confirming that a firm's compliance record is given due weight when deciding whether to launch a disciplinary case. It will be important in this work not to lose sight of the fact that the procedure under which decisions on enforcement cases are taken by the RDC is essentially administrative, so that the kind of scrutiny provided by a Court or Tribunal cannot be expected of the Committee: this makes it all the more important to ensure that the process is conducted fairly at earlier stages and is seen to be fair. We have also pressed the Treasury again to review the rules on FINSMAT's procedures with the objective of aligning them to the Council on Tribunals' model rules which have been amended to clarify the circumstances in which a case can be heard in private.

Other major submissions

Analysts and conflicts of interest

The work on analysts and conflicts of interest was done jointly with the BBA, ISMA and IPMA, and our Securities Trading Committee supervised LIBA's contribution. The four associations issued two pieces of guidance during the year, on dealing ahead of research and on research independence policies. Both were prepared in close cooperation with, and supported by, the FSA, although the statutory provisions meant that the guidance could not be formally endorsed – an issue referred to further below in the summary of our work on amendments to the legislation (the "N2+2" Review). This work was in addition to a very substantial joint submission on the FSA's consultation paper CP 205, introducing research independence policies. We are grateful for Freshfields' support of our work in this area.

Firms are now looking forward to the FSA's review of the impact of the changes to the regulation of research. They remain concerned that the review will not capture the impact of the regime on fixed income markets.

Soft commission and unbundling

The FSA set out a new approach in May 2004 on soft commission and unbundling, under which the industry was required to develop and implement an enhanced disclosure regime. We worked with IMA to develop a common understanding of the way forward and the role to be played by brokers in supporting the disclosures to be made by fund managers to their clients. In

March 2005, the planned LIBA statement of good practice will be published, and we expect that the first reports will flow through to clients of fund managers in January 2006.

"N2+2" Review of the legislation

The CLG has also led the work on responding to the Treasury's review of the Financial Services and Markets Act and secondary legislation (the "N2+2" Review). As well as commenting on formal consultation papers – in particular, the Changes to Secondary Legislation and Informal Capital Raising consultations – the CLG has pressed the Treasury to consider amendments to the provisions that deal with the circumstances in which waivers can be granted by the FSA, the requirements on disclosing changes in controllers of financial services firms and such firms' "close links" (the current procedures are unduly onerous given the underlying policy), and the measures dealing with guidance – in particular the need to amend the Act to allow the FSA formally to endorse guidance produced by trade associations and other bodies.

Trade association guidance

The last of these is important because although Members continue to believe very strongly that the regulator itself should make its requirements clear – and that improved Handbook accessibility makes it unnecessary to reduce the length of the rule book by dropping guidance – there are likely to be cases where firms conclude that there would be merit in their trade bodies providing additional clarity on what rules require in particular circumstances. It may be that the FSA would need to consult on guidance of this kind prepared by other bodies before this could be endorsed, given the statute's general approach to consultation, but this would not undermine the value of the exercise. It should also be noted that there appears to be no reason why the proposal that the legislation should be amended as regards broadening the kinds of guidance that the FSA can endorse – currently the regulator can only make rules endorsing the Takeover Code – should prompt initiatives to revisit whether the general requirement for the FSA to consult on its own guidance should be modified or indeed retained.

Cost of regulation initiatives

The findings of the "N2+2" Review were announced by the Financial Secretary in December, but discussions on a number of issues are continuing. One important conclusion was the need for the FSA to enhance the role of its cost-benefit analysis work and a project on this is being taken forward with the Practitioner Panel. The outcome of this work may well be relevant to our discussions with the FSA about maintaining guidance where firms find this helpful. The FSA has said that guidance will be maintained where it adds value, but it is too early to judge whether this is being achieved as rule changes are developed, and establishing a better process for assessing the potential costs to firms that can arise if guidance is dropped should be helpful in this regard.

Other consultations

Issues covered in the FSA's consultation papers to which we have responded have ranged from helpful changes to the requirements on controllers and "close links" notifications – although the legislation has limited the FSA's freedom of action here, as noted above – to amendments to the arrangements that apply to complaints against the regulator.

Other issues

FSA fees

Aspects of the way periodic fees which firms pay the FSA are calculated continue to give rise to difficulties as a result of a double-counting problem. This arises because some of the fee-blocks use a headcount of approved persons and proprietary traders to measure a firm's size, and this can give a misleading impression where the individuals involved undertake activities in more than one fee-block or work for more than one firm within a group. The FSA brought forward proposals for introducing an income-based measure of a firm's size to replace the headcount tariffs in two fee-blocks and, in theory, this would have reduced the problem. It soon became clear from Members, however, that the FSA's suggested alternative was impracticable. After discussion with us, the FSA accepted this analysis, and did not proceed with the changes. However, so far other proposals to address double-counting have not been brought forward. We will continue to pursue this issue on Members' behalf.

Other matters

We have continued our work on cross-border data transfer issues. In discussion with Members, we produced a paper to explain the extent to which duties to clients and the steps taken by firms to comply with financial services regulation delivered a high level of data protection as a by-product. We argued that this should be taken into account when assessing whether in-house policies would provide adequate safeguards for personal data transferred to group companies outside the EU. Discussions on this subject are continuing.

Other work has included submissions to the Law Commission on their consultation on the reform of the law on company security interests, and to the DTI on their proposal for a new procedure to fast-track amendments to company legislation that was contained in the Company Law Flexibility and Accountability consultation. In addition, we acted as Secretary to the CLG committee that responded to HM Treasury's consultation on the implementation of the Winding Up Directive.

We have also continued to provide facilities for members of LIBA's committees to come together to discuss informally their firms' approach to interpreting a range of regulatory requirements. In addition, we were pleased to be invited to join the European Working Group which was established to consider how firms could apply the Joint Market Practices Forum's recommendations on the handling of material nonpublic credit information in circumstances where their credit portfolio activities are subject to the laws of EU Member States, in particular to measures implementing the MAD (the other members of the Group were ISDA, the Bond Market Association, the Loan Market Association and the International Association of Credit Portfolio Managers; Clifford Chance were special counsel for the project). Following consultation, it is expected that the European Supplement to the Forum's Statement of Principles and Recommendations will be published in May 2005.

Financial Crime

The pressure from the authorities worldwide on senior management to ensure that their firms maintain their efforts to combat organised financial crime has not

diminished. The FSA announced its policy on fraud in October 2004, "Fighting Fraud in Partnership", developed from its December 2003 discussion paper "The FSA – Developing Our Policy on Fraud and Dishonesty" (DP26) upon which we commented in April. The FSA stressed that trade associations have an important role to play in working with the regulator to improve the understanding of the risks and how to manage them. We have begun work with the FSA and other trade associations to gain a better understanding of the level of awareness of economic crime and of the most significant issues including both the extent of detection and prevention methods. The main focus will be how best to assist Members to protect their business from the damaging financial and reputational consequences of financial crime.

Work of the JMLSG

The main thrust of LIBA's work during the year has been to assist the Joint Money Laundering Steering Group with the drafting of its new guidance, due to be published in March 2005 as a consultation document. LIBA's Members have contributed considerably to the extensive work required by this exercise. The expertise that Members provided helped to ensure that the new guidance was proportionate and practical as well as far-reaching in its approach to the issues surrounding customer identification and verification. The new guidance promotes a risk-based approach and has, for the first time, included sector-specific material building upon the main guidance. LIBA is continuing to ensure that the JMLSG's work benefits from Members' knowledge and experience.

Other issues

Other aspects of LIBA's work over the year have included:

- Liaising with HM Treasury on matters concerning the European Third Money Laundering Directive proposal, and latterly discussion about its implementation.

- Participating in the FSA's trade association liaison group on financial crime and the working group on customer identification.

- Contributing, alongside other trade associations, to the work of the National Criminal Intelligence Service, HM Treasury and the Home Office on a number of matters including consideration of the intelligence information that the enforcement agencies could usefully supply the industry to assist training and control processes.

Organised financial crime is increasing and cross-border crime is becoming commonplace. The expectation of the regulators is that senior management will be "alive" to the issues to which their firms could be exposed and will ensure that adequate resources are devoted to countering this growing threat. The FSA in particular has emphasised that senior management is responsible for policy in this area.

Internal Audit

Corporate governance

The focus of our Committee's attention has been the continued changes surrounding corporate governance and the impact that this is having on the work of internal audit departments. Members are required to take account of both UK and international changes, and the work of internal audit reflects the internal

changes that firms are making in business and reporting lines. In particular, the Committee has followed the development of the Financial Reporting Council's Combined Code on Corporate Governance – not least the requirement for audit committees to review the effectiveness of internal audit.

Firms continue to develop their risk mitigation processes. The Committee considered issues relating to operational risk and management of conflicts of interest as well as issues relating to the application of the FSA's risk-based approach to supervision. The roles of firms' audit committees (or their equivalent) and their interaction with senior management were also considered by the Committee. In addition, the Committee reviewed the work of the FSA's supervision teams and the development of the relationships with internal audit especially in those firms that have a "close and continuous" relationship with their supervisors. The FSA, where appropriate and with managements' involvement, is exploring the extent to which making use of internal audit reports can assist it in achieving its objectives more efficiently, and the Committee has considered the implications that this may have for Members.

On the international front, as well as contributing to LIBA's work on directives and initiatives from the Basel Committee – as summarised in earlier sections of this Report – the US Sarbanes-Oxley Act is of significance to some Members and the Committee has continued to consider the role of internal audit in firms' compliance with its requirements. The Committee also discussed the Group of Thirty's report "Enhancing Public Confidence in Financial Reporting" which sets out some suggestions for the work of internal audit.

The Committee has an interest in the regulation of financial crime and has discussed both money laundering and fraud issues. It also takes an interest in a range of the FSA's papers, especially the pronouncements in the "Dear CEO" letters, and in enforcement cases.

UK Prudential developments

The section of this Report above dealing with International Developments summarises our work on Basel and the Capital Requirements Diective (CRD). In the UK, the implementation project is receiving increasing attention, and throughout the year firms were expressing concern about the FSA's plans. Firms felt strongly that national implementation should be based on a coherent strategy, and should not focus on technical details in the absence of overarching objectives. LIBA and the BBA raised these concerns in a constructive dialogue in which the FSA agreed the need to articulate its implementation strategy more clearly and that senior FSA management should be more visible in the leadership and delivery of that strategy.

UK Basel Implementation

The FSA established a High Level Advisory Group chaired by the Managing Director, Wholesale and Institutional Markets, and attended by senior industry and association representatives to review progress on UK implementation of Basel. It remains important, though, that the momentum of the overall implementation project should be maintained and this committee will act as an important forum for the industry's dialogue with the FSA.

At a working level, LIBA has also participated in the Standing Groups that have contributed to the development of the FSA's CRD implementation consultation "Strengthening Capital Standards" issued in January 2005 (CP05/03). We are now working with the BBA, Council of Mortgage Lenders, Building Societies Association and the Finance and Leasing Association on a joint response. We will continue to work with the FSA on implementation through the Standing Groups and their associated Expert Groups.

Low Default Portfolios

One of the most important implementation issues is the treatment of portfolios with low defaults and/or low amounts of historic data. Such portfolios are very common, particularly in the trading book environment, and some estimates suggest that up to 50% of commercial banks' balance sheets may be similarly affected. There are a number of different reasons for the scarcity of default data, but it is essential to ensure that such portfolios are not barred from the Internal Ratings Based (IRB) approaches. ISDA, LIBA and the BBA have been in close contact with the Basel Committee – through the Accord Implementation Group – the European Commission and the FSA to discuss and develop an approach towards such portfolios that can satisfy the concerns of all parties.

Pillar 2

Pillar 2, or the Supervisory Review Process, has risen in prominence during the last year: most notably, in May CEBS issued its consultation paper on High Level Principles.

Pillar 2 requires firms to undertake an internal assessment of their own capital needs and to be able to assure the supervisor that their capital is appropriate and adequate. This leads to many difficult questions including how firms can disaggregate and explain their processes and internal capital assessment to regulators, as this task has not been attempted on a systematic basis before. LIBA responded jointly to CEBS with the European Banking Federation (EBF) and ISDA. We were glad to see that the CEBS paper reflected language that we had drafted in earlier exchanges and were pleased to learn that our response to the paper was well received as a fruitful contribution.

LIBA has also pressed, with fellow associations, for greater momentum at the UK level, and the FSA has now created an external standing group and is running pilot schemes on Pillar 2 processes. This is welcome.

Home/Host

The cross-border nature of many issues – whether approval of IRB models, or the scope of Pillar 2 assessments – is a major concern to many firms. The London market is particularly complex as there are many global firms with a UK presence where the parent is located either in the EU or beyond. The nature of home/host relationships has the potential to vary considerably depending on the location of the ultimate parent. For example, there are certain home/host responsibilities that are allocated within an EU legal framework that do not apply to relationships between EU jurisdictions and non-EU jurisdictions. LIBA has reinforced the message that regulators have to take into account situations where the UK is the host state as well as the occasions when the UK is the home state. In particular we, together with ISDA and the BBA, have stressed to the regulators firms' concerns on the practical implementation of home/host

arrangements. CEBS plans to issue a paper on home/host relationships in the Spring of 2005: this will be an important stage in the international dialogue.

Prudential Sourcebook (PSB) project

Systems and Controls

The FSA postponed the implementation of the new Systems and Controls sections of the PSB that were due to come into force in January 2005. This change was a consequence of the accelerated implementation timetable of the MIFID, the reason for which was explained in the International Developments section of this Report.

The MIFID will, at the very least, require the upgrade of the PSB's intended "guidance" on systems and controls into "rules". As consultation would have to have started almost as soon as the FSA had released its PSB chapters, it drew the conclusion that it was better, albeit regrettable, to withdraw the chapters rather than leave them "dead in the water".

Although, on balance this development was probably inevitable, the decision had major consequences for many firms, not least during the interim period during which firms have not had certainty on what to apply and by when. As a result it has been increasingly difficult to maintain momentum in implementation projects.

Handbook restructuring

As the PSB project developed, firms became increasingly concerned about the potential accessibility and navigability of the prudential material in the FSA Handbook. LIBA pressed strongly on this issue and it is welcome that the FSA has now agreed that the structure of the Handbook should be reconsidered. From January 2007, for "core firms", there will be a "GENPRU" – with material applying generally to banking, investments and insurance – and also two further Sourcebooks, one applying to banks and investment firms and the other applying to insurance firms. In addition, there will be stand-alone Sourcebooks for specialised firms. This restructure is significant because it reflects the reality that the same prudential regime applies to banks and investment firms and will underpin the need for the FSA to retain a more integrated approach to the issues affecting both sets of firms – both when the FSA is acting domestically but also when it is negotiating policy in international fora.

Recategorisation of firms

As an adjunct to the restructuring, the FSA has also reviewed the PSB categorisation of firms. The categories that the FSA expects to use in the near future are as follows:

- Bank or Building Society
- Insurer
- Own Account Dealer
- Matched Principal Broker
- Broker/Manager
- UCITS Management Company
- Arranger

The majority of the corresponding definitions are based on the current glossary. However where a firm falls into more than one category – as can happen on occasion – this would be dealt with through the application scope of each chapter of the PSB. There may be further updates of the categories in the future, for example as a result of the implementation of the Basel Accord/CRD. A preliminary informal reaction was sought through the PSB Standing Group, which was positive overall, although specific concerns were raised.

Liquidity

Work of the Joint Forum

The FSA set aside its thoughts on revising liquidity supervision as set out in Discussion Paper 24 owing both to strong industry comment – led by LIBA – that more work was needed, and the establishment of a Joint Forum initiative to survey principles of good liquidity management, establishing recommendations if at all possible. During the year, the Joint Forum sought presentations from some individual firms, including LIBA representatives. The Joint Forum thanked LIBA, stressing that the presentation had given them a much better sense of how liquidity risk is understood and managed in an investment banking context.

This work is continuing and in due course will be forwarded to the Basel Committee, among others. The European Commission is also monitoring the situation closely as it may create the necessary groundwork for the minimum harmonisation of liquidity supervision for banks and investment firms which has not so far existed in the EU context.

Financial Groups Directive implementation

The Directive was adopted in 2002. The major issue for the majority of firms is to achieve clarity on the timing and possible changes that will be imposed upon them through implementation, and the focus of this effort at the FSA has turned to bilateral relationships with the firms which are affected.

Equivalent regimes

One important element for firms whose parents are located in Switzerland or the United States has been the outcome of the EU process to determine whether their home state regulatory regimes were likely to be equivalent to the EU standards. In each case, the relevant EU committees issued guidance confirming their conclusions that both jurisdictions were likely to be equivalent. The onus has therefore moved to the FSA to determine on a case by case basis whether the individual circumstances of each group are indeed equivalent.

The Directive affects firms from the start of their financial year in 2005, and the FSA has prioritised its programme to work with the firms for whom the measures will come into force first. There has been concern that the FSA has not communicated as effectively as it might, and firms have been left uncertain as to how best to prepare themselves. LIBA maintained a close dialogue with the FSA to reinforce the message that firms needed clarity as soon as possible. The FSA has sought to reassure firms that no group or firm would be expected to comply with changes at inappropriately short notice.

ACCOUNTING

The move to International Accounting Standards

Preparations for the adoption of International Accounting Standards (IAS) and of new International Financial Reporting Standards (IFRS) in Europe have once again dominated our Accounting Committee's work in the year to January 2005 – the date from which the EU IAS Regulation, with minor transitional exemptions, requires every EU-listed company to prepare its consolidated financial statements under IAS/IFRS. In the last seven months of 2004 alone we submitted fourteen comment letters on IAS/IFRS and related matters. The majority of these were to the International Accounting Standards Board (IASB), but the total includes submissions to the Accounting Standards Board (ASB), the European Financial Reporting Advisory Group (EFRAG), CESR, DTI and the FSA. A range of related changes to existing UK requirements mean that many of the issues addressed in these submissions have the potential to affect all LIBA Members, whether or not they are likely to adopt IAS/IFRS in the immediate future.

Financial instruments

The most significant – and the most controversial – changes for the financial sector have been the revised standards for financial instruments: IAS 32 (on disclosure and presentation) and IAS 39 (on recognition and measurement). Here the IASB has run into considerable opposition. The strongest criticism has come from the commercial banking sector, notably from a number of Continental banks who saw such problems with the new IAS 39 – particularly the likelihood of much greater volatility in their reported results – that they did not want the EU to adopt this Standard for use under the Regulation. Concerns were also expressed by the ECB over the extent of the scope in the new IAS 39 for the use of fair value, which it perceived as having the potential to increase regulatory risks.

Faced with this opposition, the IASB undertook intense discussions with interested parties to see if a compromise could be found which would enable the Standard to be adopted. Although these discussions produced a degree of progress, it was not sufficient for the European Commission and its Accounting Regulatory Committee to feel they could recommend IAS 39 for endorsement. Instead, the Commission produced its own "carved-out" version of the Standard which omitted certain contentious provisions on the use of fair value and on certain aspects of hedge accounting, and which has now been adopted for use under the Regulation from January 2005.

LIBA has been closely involved in all stages of this debate, both by commenting in detail on the various Exposure Drafts and through representations to the European Commission and other bodies mentioned above. Although critical of a number of aspects of the proposed revised IAS 39, we argued strongly that the Standard should have been adopted in full, and that acceptance of the carved-out version could be damaging to the EU's capital markets and, more generally, to the integrity of corporate reporting in Europe. Moreover, we believe this version has set an unfortunate precedent for future Standards. Having said that, all parties continue to work to resolve the outstanding issues and, at the time of

writing, it looks at least possible that a slightly amended full version of IAS 39 could be endorsed for use in the EU within the next twelve months or so.

IASB's working methods

Partially in response to these difficulties over IAS 39, and to the related concerns expressed by the European Commission and others over due process, the IASB has undertaken a series of public consultations on their constitution, procedures and working methods. These consultations, to which LIBA has contributed in some detail, have focused particularly on two areas: improved transparency in the IASB decision-making process, where substantial progress has already been made, and a strong argument from some quarters for greater European representation on the IASB.

Other IAS issues

In parallel with the IASB work, CESR has consulted extensively on the equivalence of certain third country GAAP to IAS/IFRS; the DTI and the Inland Revenue have (respectively) consulted on legal and tax issues arising from the implementation of IAS/IFRS in the UK; the FSA has consulted on the potential implications of IAS/IFRS for regulatory matters; and the ASB has consulted on consequential changes to UK GAAP. We have contributed substantially to these consultations, and have held a number of meetings with the DTI and the ASB which have focused on the UK aspects of the various changes proposed.

Our Accounting and Financial Regulation Committees looked in some detail at the FSA's CP04/17 – Implications of a Changing Accounting Framework – which set out how the FSA proposes to deal with the capital requirements of regulated entities which will be reporting under IAS. While generally supporting the suggested approach, and also the FSA's longer term objective of promoting convergence of all regulatory measures of capital to the extent possible, we raised a number of points of detail, and stressed the importance of not underestimating the potential cost and operational implications of any changes for LIBA Members.

Finally, our informal IAS Implementation Working Party has been meeting regularly (two to three times a month) to consider some of the key practical issues that the move to IAS will bring to LIBA's Members, including detailed analysis of the new standards themselves. This has proved a very useful forum for the informal exchange of ideas between Members.

Other accounting developments

Amongst other accounting-related topics, we have been working closely with IPMA to persuade the European Parliament to make changes to Article 39 of the proposed Statutory Audit Directive, which deals with Audit Committees. We are cautiously optimistic that this Article will be amended so as to remove from SPVs used for securitisations the potentially onerous requirement to have an Audit Committee. On the domestic front, LIBA has participated in a new high-level Audit Quality Forum established under the auspices of the Institute of Chartered Accountants in England and Wales (ICAEW) to consider some key issues facing the audit process in the UK.

We have also maintained a largely watching brief on a number of other developments in accounting and reporting, notably the EU Prospectus and

Transparency Directives (see also the references to these Directives in the Corporate Finance section of this Report above).

TAXATION

EU "Savings Tax" Directive

As noted in previous Annual Reports, the revised proposals for an EU "Savings Tax" Directive, based very largely on the agreement at the Feira summit in June 2000, were finally agreed by Finance Ministers in March 2003. The Directive will require information on the savings income of non-residents to be reported, subject to certain conditions, to the individual's home state fiscal authority. Austria, Belgium and Luxembourg have instead opted for a withholding tax – initially at 15%, rising to 20% after three years and to 35% after seven. Although technical difficulties over certain of the necessary agreements between the EU countries and "third countries" – including Switzerland, Liechtenstein and Monaco – under which they will impose withholding taxes at the same rates on EU taxpayers, and similar agreements with the Crown Dependencies (Channel Islands and Isle of Man) and the UK and Dutch Caribbean Dependencies, have caused implementation to be postponed by six months to June 2005, it seems highly likely that the Directive will come into force on that date.

Work of the City Group

LIBA has continued to provide the Secretariat for the "City Group", an informal grouping of the principal trade associations and major market operators formed to consider the implications of the savings tax proposals and to coordinate industry views on them. Group members include the BBA, IMA, IPMA, the Association of Private Client Investment Managers and Stockbrokers (APCIMS), the Association of Corporate Treasurers (ACT), the Association of Foreign Banks (AFB), ABI, CBI, and the Corporation of London, as well as some fifteen major banks. We have also continued to play a very active part in representing the views of Members directly to the Inland Revenue and HM Treasury.

The City Group strongly opposed the original "co-existence" model, notably because it would have caused immense problems for UK market operators and for the eurobond market as a whole. That model would also have led most Member States to opt for a withholding tax – an inherently unsatisfactory system which typically collects the wrong amount of tax in the wrong place, and which provides little incentive for enforcement by the withholding country. The final Directive is very different. That all but three smaller Member States have committed themselves to automatic exchange of information (which puts the responsibility for enforcement where it should be – with the taxpayer's home state) is significant not just in Europe, but also in the wider OECD context. The introduction of automatic exchange of information between twenty-two EU countries, with the remaining three having undertaken to come into line if the US and Switzerland adopt OECD standards on information exchange, will put the EU on morally higher ground in future OECD discussions on tax evasion, and thus make it easier to exert pressure on countries that are reluctant to cooperate.

Over the past year the City Group has focused principally on working with the Inland Revenue to resolve a number of outstanding procedural points over the UK implementation of the Directive. With the final piece of primary legislation – which enables UK taxpayers to offset any tax withheld under the Directive from income on offshore deposits – included in the Finance Act 2004, the Group's work is now largely completed, but we will keep it in existence for the time being as it may have a useful role to play in dealing with any practical difficulties which emerge once the Directive comes into force.

UK implementation

Her Majesty's Revenue & Customs

The 2004 Budget Statement announced the much trailed merger of Customs and the Inland Revenue into a single tax department, to be called Her Majesty's Revenue & Customs (HMRC). The stated triple aim of the merger is to reduce compliance costs, particularly for smaller companies, to improve the effectiveness of the combined operation, and to improving efficiency, notably in the form of a net reduction of 10,500 jobs by 2007/08. The Treasury has brought in a number of key professionals from the Inland Revenue and from the private sector to run a combined strategic policy unit. The creation of this unit, and the parallel merger of the upper levels of Inland Revenue and Customs management into the new unified tax department, appear to be progressing rapidly and, as far as we can see, generally sensibly. Integration at the operational level will proceed more slowly, and the early indications are that, other than the creation of a combined Large Business Service, our Members are likely to see little material change for some time.

New anti-avoidance reporting regime

The 2004 Budget Statement contained a second change of considerable potential significance for LIBA Members: the introduction of new disclosure requirements for "Tax Avoidance Schemes". This change appears to have been prompted by increasing Treasury concern over what it has perceived as a vicious circle of increasingly complex tax avoidance schemes requiring ever more complex legislative countermeasures, which in turn create new avoidance opportunities. The Chancellor had apparently considered bringing in a general anti-avoidance rule (GAAR) but, having looked at how a number of countries approach such concerns, was persuaded that – at least for the present – it would be more practical to attempt to secure "greater transparency" through the pre-notification of certain categories of tax schemes.

Our Taxation Committee, while not challenging the overall principles, believed the original version of the new Inland Revenue disclosure regime to be for practical purposes unworkable: the rules were so widely, and so loosely, defined that we believed companies would have great difficulty in identifying what they should disclose, and would in practice find it necessary to disclose large numbers of "plain vanilla" transactions in order to be sure of complying with the law. There was thus a serious risk of substantial over-disclosure, with significant costs for the industry. Furthermore, it seemed likely that the Inland Revenue would receive so many disclosures that they would find it extremely difficult to identify the transactions that they were really after.

VAT aspects

The VAT Committee had similar concerns over the parallel new regime for reporting to Customs. Although the VAT disclosure rules were more tightly defined than those relating to Corporation Tax, they might in particular require the automatic reporting of significant numbers of asset sale and leaseback schemes, irrespective of the fact that the purpose of such arrangements is not to avoid tax. Apart from the costs associated with significant over-disclosure, firms were concerned about the reputational problems that might arise should it become public that they were disclosing large numbers of structures which Customs appeared to consider as prima facie examples of avoidance.

Working closely with the BBA, LIBA made detailed representations to the Inland Revenue and to Customs setting out the problems as we saw them and suggesting how the proposals might be improved, which were followed up by a series of high-level meetings with both departments. The Inland Revenue largely accepted our analysis of the issues and worked constructively to make important amendments to the proposals. These changes produced significant improvements to the new regime which is, in consequence, proving much easier (for both industry and the Inland Revenue) to operate than had originally been feared. We were somewhat less successful with Customs, but even here early indications are that the new regime is causing fewer problems than had at one stage seemed likely. We will continue to maintain very close contact with the officials concerned and remain cautiously optimistic that common sense will eventually prevail.

Other recent and pending UK tax changes

Foreign Tax Credits

The December 2004 Pre-Budget Report (PBR) announced proposed changes aimed at a significant tightening of the rules for Foreign Tax Credits. These proposals have caused serious concern, both as to their practicability and as to the potential effects on the market. We have had a series of constructive meetings with the Inland Revenue, which appear likely to result in a much more practical regime.

Retrospective legislation

Published with the PBR were the Paymaster General's proposed measures designed to counter certain structures aimed at avoiding income tax and/or National Insurance contributions on bonuses. Her statement announcing these proposals contained an implied threat of further retrospective measures "to deal with any arrangements that emerge in future designed to frustrate [the Government's] intention that employers and employees should pay the proper amount of tax and NICs on the rewards of employment". Irrespective of the merits of this particular case, we saw this as an extremely bad precedent and have protested strongly against the principle of this sort of retrospective approach.

MODs

IAS 39

We have continued to work with the Inland Revenue to make significant improvements to the evidential requirements of new guidance notes for the treatment of manufactured overseas dividends (MODs) which, as reported in LIBA's last Annual Report, were themselves largely a response to LIBA representations. We have also participated in a joint industry/Inland Revenue working group looking into the tax effects of IAS 39: Financial Instruments,

where the Revenue has adopted a constructive and pragmatic approach (the Accounting section of this Report above summarises other aspects of our work on International Accounting Standards). There has however been no progress, at least in the public domain, on the proposed revision of the residence and domicile rules: we continue to monitor this topic very closely.

Stamp Duty

We have again been disappointed that another year has passed without any progress towards the reduction or abolition of Stamp Duty and SDRT on securities transactions. As LIBA and many others have stressed, these taxes are levied at a significantly higher level than corresponding taxes in other jurisdictions. They thus create, amongst other problems, a major disincentive for the largest multinational corporations to remain registered in the UK. We continue to believe that market pressures and competition will increasingly erode the revenue from these taxes, and that attempting to preserve them risks irreversible damage to the UK securities industry. We stressed these points at a high-level meeting with the Inland Revenue, and we hope that our dialogue with the Treasury and Inland Revenue on the issues will contribute to a better understanding of how the markets work, which will enable them to recognise the case for eventual abolition of these taxes.

Meetings with Customs

We have continued our programme of meetings with senior Customs officials to discuss VAT issues of concern to LIBA Members. These meetings play a key part in sustaining our generally open and constructive relations with Customs, which have noticeably improved in recent years. Apart from the issues arising from new anti-avoidance disclosure requirements – which are discussed above – we have made substantive representations on a range of technical issues including: the VAT implications of the enhanced transparency proposals developed to meet the concerns raised by the FSA on unbundling (on which point Deloittes provided LIBA with very helpful advice), the appropriate VAT treatment for the UK end of the new market for emissions trading, the extension of a VAT concession relating to the supply of temporary staff by employment agencies, and the application of UK law following a series of European Court of Justice cases on outsourcing.

Other tax issues

Work in the OECD

The OECD has continued to work on its major review of the taxation of bank permanent establishments (PEs). Following a major consultation meeting in Geneva early in 2004, they issued what were intended to be near-final versions of all three parts of their report on PEs. Contrary to the indications given in Geneva, these showed only minor changes from the earlier drafts, and still contained what we believe to be major conceptual and practical flaws. Working with the BBA in the UK, and more generally with the Institute of International Bankers and EBF, we have continued to press the OECD to remove at least some of the worst features. A second, much smaller, consultation meeting held in October produced signs of slightly greater flexibility, but the timetable for finalising this work has now been put back to 2006/7 and it is therefore likely to be some time before we see the final shape of the new OECD rules for PEs.

Annual tax submission

Finally, we again used our annual tax submission, which for the first time covered VAT issues as well as direct tax issues in the same paper, to underline the importance of the fiscal legislative process working – and being seen to work – in an equitable and sensible manner. We restated the principles which we believe should be followed if this is to be achieved: cost-benefit analysis of the effects of prospective changes, full consultation wherever possible, confining new anti-avoidance measures to specific targets, avoiding sudden legal changes, ensuring that legislation keeps up to date with changes in the traditional divisions between different types of firm, and ensuring that adequate notice is given of the date when new measures are to take effect.

PERSONNEL

The Personnel Committee provides a forum for discussion of personnel practice and employment law as well as matters relating to the FSA's training and competence regime.

Legal issues considered by the Committee during the year included the Pensions Bill, implementation of the Employment Relations Act 2004, age discrimination, disability discrimination, requirements on informing and consulting employees, and corporate responsibility in relation to health and safety including stress in the workplace. In addition, the Committee has maintained its interest in developments in European law, in particular the Working Time Directive and the proposals for a directive on working conditions for temporary workers.

In relation to training and competence, the Committee has maintained a close watch on the development of the Financial Services Skills Council including its review of the examination setting process and competency standards.

ADMINISTRATION, CONTINGENCY PLANNING AND BUSINESS CONTINUITY

The Administration Committee provides a forum for discussion of administration and facilities management operations topics including business continuity issues. During the year the Committee has considered a range of subjects including security, building maintenance, catering facilities, centralising administrative services, document handling and production, environmental matters, relocation issues and the use of "reverse auctions" when seeking to award contracts for the provision of supply and service contracts.

Work of the SIBCMG

LIBA has been a supporter of the Securities Industry Business Continuity Management Group (SIBCMG) since its creation in November 2001. SIBCMG focuses on business continuity, disaster recovery and crisis management practices within the investment banking sector. This year SIBCMG assisted in the organisation of the November 2004 Communication exercise run by the Tripartite authorities (HM Treasury, Bank of England and the FSA). SIBCMG has completed a reorganisation into a corporate form which will enable it to widen its membership in the coming year.

The Association for Payment Clearing Services (APACS), BBA and LIBA are working together to provide a supporting role by aiming to provide communications between their Members, the authorities and others as appropriate during a major incident. The group will also gather information about operational capabilities and business resumption activities of Members and, where necessary, will communicate with other industry groups to ensure a full exchange of information.

LIBA will also continue to press the authorities to take the necessary action to ensure that the industry is prepared and rehearsed for whatever the future may hold.

COMMITTEES OF THE ASSOCIATION

The Association has six committees representing Members' interests in Corporate Finance, Securities Trading, Fixed Income Markets, Compliance, Banking and Finance. In addition, there are specialist committees (listed below) and working parties are appointed to deal with particular issues when the need arises. The Accounting, Financial Regulation, Tax and VAT Committees report as necessary to the Finance Committee

COMMITTEES

The members of the Functional Committees as at 31st March 2005 were as follows:

Corporate Finance

S. Dingemans (*Chairman*)	–	Goldman Sachs International
Mrs P. Adomakoh	–	N.M. Rothschild & Sons Limited
E. Banks	–	JP Morgan plc
A. Defriez	–	UBS Investment Bank
P. Drayton	–	Citigroup Global Markets Limited
C. Foreman	–	Deutsche Bank AG London
J. Grace	–	Investec Investment Banking
P. Jameson	–	Lazard & Co., Limited
H. Somerset	–	Dresdner Kleinwort Wasserstein
C. Smith	–	JPMorgan Cazenove Limited
K.J. Smith	–	Merrill Lynch International
S. Upcraft	–	Credit Suisse First Boston (Europe) Limited
M. Warham	–	Morgan Stanley & Co. Limited

Securities Trading

R. Barnes (*Chairman*)	–	UBS Investment Bank
M. Ackers	–	ABN Amro
Ms N. Beattie	–	Merrill Lynch International
J. Birch	–	Goldman Sachs International
J. Brown	–	Cazenove
D. Crookston	–	J P Morgan
C. Driscoll	–	Credit Suisse First Boston (Europe) Limited
T. Eckert	–	Dresdner Kleinwort Wasserstein
F. Evangelista	–	BNP Paribas
D. Koffler	–	Instinet Europe Limited
R. Kyle	–	Citigroup
J. Lowrey	–	Lehman Brothers
R. Reynolds	–	Deutsche Bank AG London
D. Russell	–	Morgan Stanley & Co International Ltd
J. White	–	HSBC Bank plc

Fixed Income Markets Committee

M. Ridley (*Chairman*) – J P Morgan
G. Ashton – Barclays Capital
Z. Awad – Goldman Sachs
S. Bell – UBS Investment Bank
N. Denison – WestLB
P. Gooding – HSBC
R. Herman – Deutsche Bank
C. Longden – ABN Amro
A. di Lorenzo – Winterflood
C. Mundigo – BNP Paribas
M. Watson – Citigroup

Ms S. Barrass – International Primary Market Association
R. Britton – International Securities Market Association
J. Hale – Association of British Insurers
M. McKee – British Bankers' Association
G. Midgley – Investment Management Association

Compliance

R.J. Levy (*Chairman*) – Goldman Sachs International
M. Bailham – Morgan Stanley International Ltd
D. Cooper – HSBC Bank plc
Ms. C. Curtis – Lehman Brothers
Ms S. Docx – WestLB AG
N.S. Gibson – ABN AMRO Bank N.V.
D. Gordon – Nomura International plc
M. Hart – BNP Paribas
B.A. Harte – Barclays Bank PLC
M. Herde – UBS Investment Bank
G. Lewis – CIBC World Markets
R. O'Donnell – Banc of America Securities Limited
G. Russell – Credit Suisse First Boston (Europe) Limited

Banking

H. Angest (*Chairman*) – Secure Trust Banking Group PLC
M.R. Aish – NM Rothschild & Sons Limited
J. Spence – Singer & Friedlander Limited

Finance

P. Deighton (*Chairman*) – Goldman Sachs International
Ms S. Iles – Morgan Stanley International Ltd
M.M. Moses – JPMorgan Chase Bank
J.V. Ozanne – UBS Investment Bank
K. Pearson – Merrill Lynch
D.G. Penfold – Deutsche Bank AG London
G. Pennells – Citigroup Inc.
M.R.P. Power – JPMorgan Cazenove Limited
P. Reid – HSBC Bank plc

SPECIALIST COMMITTEES

Accounting
Administration
Financial Regulation
Internal Audit
Personnel
Prime Brokerage
Settlement
Taxation
VAT

MEMBERS OF THE ASSOCIATION

ABN AMRO Bank
Arbuthnot Latham & Co., Limited
Arbuthnot Securities Limited
BNP Paribas
Banc of America Securities Limited
Barclays Capital
Bear, Stearns International Limited
Brewin Dolphin Securities
Bridgewell Group Limited
CIBC World Markets
Citigroup Inc.
Close Brothers Corporate Finance Ltd
Collins Stewart Limited
Commerzbank AG
Credit Suisse First Boston (Europe) Ltd
Daiwa Securities SMBC Europe Limited
Dawnay, Day & Co., Limited
Deutsche Bank AG London
Dresdner Kleinwort Wasserstein
Evolution Securities Limited
Goldman Sachs International
Greenhill & Co. International LLP
Hawkpoint Partners Limited
HBOS Treasury Services plc
HSBC Bank plc
Instinet Europe Ltd
Investec Plc
JPMorgan Cazenove Limited
KBC Peel Hunt Ltd
Lazard & Co., Limited
Lehman Brothers
Merrill Lynch Europe PLC
Mizuho International plc
Morgan Stanley International Ltd
Nomura International plc
N M Rothschild & Sons Limited
Numis Securities Limited
Oriel Securities Limited
Radian Financial Products Limited
Robert W. Baird Group Limited
Sanford C. Bernstein Limited
Singer & Friedlander Limited
Société Générale
3i Group plc
UBS AG London
WestLB AG
Winterflood Securities Limited

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