

LIBA

LONDON INVESTMENT BANKING ASSOCIATION

ANNUAL REPORT

2005

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 and promotes their views to the authorities in the United Kingdom, the European Union and elsewhere.

Chairman's Committee

Mr A.C.D. Yarrow *Chairman*
Lord Aldington
Mr H. Angest
Dr. R.D.F. Barnes
Mr S. Dingemans
Mr C. Keogh
Mr M.S. Klein
Mr R.J. Levy
Mr M. Ridley
Mr J. Taylor *Director-General*

Mr M. Kinnunen (SSDA) and Mr I. Mullen (BBA) also attend meetings of the Committee.

LIBA Executive Staff

Jonathan Taylor *Director-General*
E-mail: jonathan.taylor@liba.org.uk

Sir Adam Ridley
Senior Adviser
E-mail: adam.ridley@liba.org.uk

Peter Beales
Director and Secretary
E-mail: peter.beales@liba.org.uk

Timothy Baker
Director
E-mail: timothy.baker@liba.org.uk

Samantha Barrass
Director
E-mail: samantha.barrass@liba.org.uk

William Ferrari
Director
E-mail: william.ferrari@liba.org.uk

Ian Harrison
Director
E-mail: ian.harrison@liba.org.uk

Diane Hilleard
Director
E-mail: diane.hilleard@liba.org.uk

Paul Martin
Director
E-mail: paul.martin@liba.org.uk

Katharine Seal
Director
E-mail: katharine.seal@liba.org.uk

John Serocold
Director
E-mail: john.serocold@liba.org.uk

Sue Davidson
Manager
E-mail: sue.davidson@liba.org.uk

Lars Nordström
SSDA secondee, covering EU issues
E-mail: lars.nordstrom@liba.org.uk

Chairman's Committee, Regulatory Reform,
Compliance, Conduct of Business, Legal,
Data Protection and Freedom of Information

European Regulation, Markets in Financial
Instruments Directive and post-FSAP agenda

Fixed Income and "better regulation" agenda

Corporate Finance and Company Law
(including Director/Auditor liability and
Transparency Directive)

Accounting, Finance, Taxation and VAT

Risk Management, Prudential Regulation
and accounting/regulatory boundary issues

Personnel, Internal Audit, Financial Crime
(fraud, money laundering and terrorist
funding), Business Continuity and Compliance

Risk Management and Prudential Supervision

Securities and Derivatives Markets
(including exchanges, clearing and settlement,
prime brokerage and securities lending)

Administration (including Business Continuity)

6 Frederick's Place, London EC2R 8BT
Tel: + 44 (0)20-7796 3606 Fax: + 44 (0)20-7796 4345
Website: www.liba.org.uk E-mail: liba@liba.org.uk

CONTENTS

	<i>Page</i>
INTRODUCTION BY THE DIRECTOR-GENERAL	3
REPORT OF THE CHAIRMAN'S COMMITTEE	
International Developments including European Legislation and Regulation	4
Securities Trading, Prime Brokerage and Fixed Income Markets	8
Corporate Finance	16
Compliance, Banking and UK Prudential Regulation	20
Accounting	27
Taxation	29
Personnel including Training and Competence issues	31
Administration, Contingency Planning and Business Continuity	33
COMMITTEES OF THE ASSOCIATION	34
MEMBERS OF THE ASSOCIATION	37

INTRODUCTION BY THE DIRECTOR-GENERAL, JONATHAN TAYLOR

This report reviews LIBA's activities over the past year, and summarises developments and achievements in our main areas of interest. Our Chairman's Statement, which accompanies this document, draws out the principal themes.

The policy environment surrounding our Members' activities continues to be complex, diverse, and challenging. International developments – both European and non-European – play an ever more important part in this, and the report begins with a section summarising these. It then goes on to review activities broadly in the context of each of our principal committees. LIBA's strengths are in large part owed to the time and energy which senior practitioners from our Members provide freely in chairing and participating in these committees, and warm thanks are due to them once again for their contribution.

Effective representation of our Members' views, particularly in the international sphere, is enhanced by working constructively and co-operatively with sister associations here and elsewhere. LIBA has continued to seek, wherever possible, to work with others in this way, and looks forward to building on this in the period ahead.

Jonathan Taylor
Director-General

March 2006

REPORT OF THE CHAIRMAN'S COMMITTEE

LIBA's Chairman's Committee is the Association's central decision-making body which oversees our activities. The day-to-day work on the great majority of matters that we cover on Members' behalf is led by the committees referred to at the end of this Report.

INTERNATIONAL DEVELOPMENTS INCLUDING EUROPEAN LEGISLATION AND REGULATION

Although the Report generally summarises LIBA's activities by reference to the work of the responsible committees, this section brings together in one place LIBA's intensive programme on EU and other international matters during the year.

Lamfalussy process implementation

Our overall stance continues to be to support the "Lamfalussy process" – the new procedure for making EU financial services legislation – whilst pressing for further improvements to it. In 2005 we did so both in response to specific consultations, and also in the context of the European Commission's White Paper on Financial Services Policy 2005–2010 (see below).

Assessment of the process

We responded, with other associations, to the European Commission's preliminary assessment of the Lamfalussy process. We also commented on the European Parliament's "Van den Burg Report" on the same subject.

With other associations, we have continued to contribute to the work of the Inter-Institutional Monitoring Group (IIMG). Early in the year we responded to the IIMG's third progress report and, in January 2006, we also responded to the Group's questionnaire in preparation for the next progress report.

"Himalaya Report"

The Committee of European Securities Regulators (CESR) consulted on the supervisory tools that might be used within the EU – the "Himalaya Report". With other associations we urged CESR to work within the Lamfalussy process and existing national structures of accountability, and warned against over-ambitious proposals for new formal structures that seemed likely to undermine flexibility. We followed up the response, both through meetings with CESR, and in responding to a consultation on a possible mediation mechanism to resolve disagreements between CESR members.

Outside the formal consultation process, we have continued to liaise with the European Commission and CESR over how the procedures are applied in practice.

Our dialogue with the Committee of European Banking Supervisors is covered in the section below dealing with EU work on capital and associated issues.

European Commission White Paper on Financial Services Policy 2005–2010

Following our participation in the European Commission's Expert Groups on the state of integration of EU markets after the Financial Services Action Plan (FSAP),

we responded to the Green Paper on Financial Services Policy 2005–2010, and contributed to the European Parliament’s own-initiative report on the subject. The Commission’s subsequent November White Paper reflected the priorities which we had advocated: the need to focus on consistent implementation of EU law rather than developing new legislation; refraining from legislating unless it is clear that the market cannot provide solutions; ensuring legislation is based on clear objectives and agreed principles of public policy (not least the principles of good regulation); promoting the EU’s international competitiveness and ensuring that innovation is not inhibited; continuing to improve the application of the Lamfalussy arrangements; and coordinating supervision of international groups and converging supervisory practices as appropriate.

We urged the European Commission to learn the lessons from past difficulties in our January 2006 response to its evaluation of the Financial Services Action Plan.

Markets in Financial Instruments Directive (MiFID)

Our work on MiFID has focused in particular on the need to ensure appropriate differentiation between the regulation of wholesale and retail markets, and that changes to the regulation of market structures, and market transparency, enable firms to continue to service clients’ needs.

We continued, with other associations, to respond to CESR’s consultations on its advice to the European Commission on “Level 2” implementing measures under MiFID. We commented on a series of drafts of the measures which the Commission brought forward for discussion in the European Securities Committee. We highlighted the dangers of unnecessarily compounding the already high level of detail in the “Level 1” Directive, particularly in relation to business with professional clients and with market counterparties. We stressed that such prescription could well damage the flexibility and international competitiveness of EU markets, and prevent exchanges, firms, and other intermediaries from providing the range of services that investors and issuers demand. As a consequence, the official draft of the Level 2 measures, published in February 2006, though still more detailed than is appropriate, was considerably improved in many respects. We will seek to maintain those improvements, and press for further necessary technical changes, as the Level 2 measures are finalised.

*“Level 2”
measures*

We continued to press for extension of the very tight deadline for MiFID to come into force, in order to give more time for consultation on the Level 2 measures; for transposition into national law; and for firms and other market participants to make the systems changes needed to comply with new requirements. We supported the European Commission’s proposal to extend deadlines by 12 months, and the eventual decision to stretch the delay to 18 months – a demonstration of the EU authorities’ recognition of the need for a practical approach to developing and enforcing EU legislation.

*Implementation
issues*

As MiFID legislation moves towards finalisation, attention has turned to market participants’ implementation of the new requirements, on which we are

participating in a number of initiatives, driven by both the regulators and the markets.

During the year we participated in several fora organised by HM Treasury and the FSA to plan for the implementation of MiFID. One of the outcomes of this work was the FSA's November "Planning for MiFID" paper. At the time of writing we are preparing a response to HM Treasury's December consultation on changes to the Financial Services and Markets Act and related legislation: this work is being taken forward through the Financial Services and Markets Legislation City Liaison Group (see also the section on Compliance below). We will continue to participate fully in the formal consultation process on changes to the FSA's Handbook over the course of 2006.

We participated in discussions with CESR on the implications of MiFID for publication and dissemination of market data. We urged CESR to leave the initiative in this area with the market, and not to pursue regulatory proposals that would cut across firms' implementation plans.

MiFID Connect

We are also participating actively in MiFID Connect, a group of trade associations covering most financial services firms in the UK. A main goal of this group is to develop during 2006 – in consultation with the FSA – industry guidelines on how firms might organise themselves to comply with new requirements under the Directive.

Basel and the Trading Book Review

The main focus of international efforts on capital adequacy in 2005 was the Trading Book Review, which was the last part of the overall capital framework. The Review was a major priority for LIBA and its Members, and featured the Basel Committee and the International Organization of Securities Commissions (IOSCO) working together for the first time in developing prudential standards. Although the timescale available for its completion was highly compressed, industry efforts were intense. LIBA co-operated with a range of other industry associations – the International Swaps & Derivatives Association (ISDA), Institute of International Finance (IIF), International Banking Federation (IBFed), The Bond Market Association (TBMA), and the Futures and Options Association (FOA) – to ensure that industry participation in the process was co-ordinated and focused. Within the EU, the Commission carried out a parallel consultation with Basel/IOSCO and was able to translate the Trading Book Review into draft legislative text for inclusion in the EU Directive.

At the Basel level, attention has now turned to the implementation of the new capital framework, and to particular aspects of the Trading Book Review, such as the treatment of incremental default risk, and "jump to default" risk, in firms' models. The Accord Implementation Group has established a sub-group to address practical issues arising from implementation of the Trading Book. The sub-group has sought industry views and contributions, and we are collaborating with ISDA and the IIF in this regard.

EU work on capital and associated issues

The EU Capital Requirements Directive (CRD) was adopted in October in a “first reading deal”. It was a major success for the European process to deliver such a complex package in a very short timescale. Briefing Members of the European Parliament on the significance of the Trading Book Review was a key focus for us and ensured that MEPs recognised the importance and urgency of the Trading Book proposals, and were able to support the late inclusion of the new text into the Directive. Both the European Banking Federation (EBF) and the IIF co-signed the LIBA/ISDA briefing document. The majority – though not all – of the additional amendments that LIBA had sought were also included in the final text.

EU Capital Requirements Directive

The Committee of European Banking Supervisors (CEBS) issued eight major consultations during 2005. LIBA responded in all cases, generally in conjunction with ISDA and with the British Bankers’ Association (BBA). While we generally support the efforts CEBS has been making towards supervisory convergence, certain key issues are emerging. Examples of these, and where we are pressing for change, are:

CEBS initiatives

- *Home/Host co-operation.* CEBS’ work has concentrated entirely on intra EU relationships. We are pressing for greater acknowledgement of the non-EU dimension which is necessary for EU and non-EU groups alike.
- *Investment firm perspective.* CEBS’ output primarily reflected a banking approach although its remit covers the prudential supervision of investment firms: we have stressed the need for CEBS to reflect the investment firm dimension more clearly.
- *Confusion over the status of the guidance and principles issued by CEBS.* Although the documents represent a consensus statement by EU regulators, firms need to know whether, and to what extent, they can or should be relied upon in local jurisdictions for implementation purposes. Domestically, the FSA has made efforts to clarify the position, but this needs to be replicated in all jurisdictions.
- *Principles vs detailed guidance.* Firms have questioned the approach that CEBS has taken in preparing guidance. In particular, in the consultation dealing with the validation of the advanced approaches (CEBS CP 10), guidance has tended to take the form of detailed and even prescriptive interpretations. We are encouraging a more principles-based approach.

Discussion has arisen again on whether Basel or the EU might initiate work on a harmonised regime for regulating liquidity. When it is published, the work of the Joint Forum on liquidity management may provide a springboard for further work either at sectoral level within the Basel Committee or at EU level. The Commission is also expected to initiate work into the Lender of Last Resort issue within the EU. While it is far from clear that EU regulators are ready to support an initiative to harmonise liquidity regulation, it will be important to ensure that the profiles of investment firms as well as banks are fully taken into account in any policy development.

Liquidity

Large Exposures

The CRD provides for a review of, and proposals on, the large exposures requirements by the end of 2007. The European Banking Committee (EBC), which is made up of national Finance Ministry representatives, is guiding this review. The Commission initiated work in December by calling for advice from CEBS on five areas – supervisory practice, industry practice, use of credit risk mitigation, underlying principles for a large exposures regime and how good credit risk management could or should be accommodated within any resulting regime. In response to this initiative the FSA has set up a working group to pre-consult with industry, which HM Treasury is also using as a sounding board in its capacity as an EBC member. We have been heavily involved in co-ordinating industry activity in this early stage of the review, and this will be a significant area of work for 2006.

Credit Rating Agencies

During the year, in response to European Commission consultations, we continued to oppose any specific regulation of credit rating agencies in the EU. The Commission concluded that no legislation is necessary at this stage.

European contract law developments

In December the Commission made a proposal for a “Rome I Regulation” on the contract law applying to cross-border contracts. The Regulation would replace the existing “Rome Convention”. The Commission’s proposal raises several legal problems which could deter financial market participants from choosing to use the contract law of EU countries. With other associations and legal experts we will be seeking to remedy these defects during 2006.

We have continued to follow the CBI’s and Law Society’s lead in monitoring the Commission’s work on a possible voluntary frame of reference for EU contract law, with a view to ensuring that the existing and well-functioning contractual relations on which financial instruments are based are not disturbed.

Other issues

Other consultations

In the course of the year we also commented on the IOSCO and Basel Committee consultations on the compliance function and corporate governance issues: a key theme was the importance of avoiding over-prescriptive measures.

SECURITIES TRADING, PRIME BROKERAGE AND FIXED INCOME MARKETS

In 2005, the Securities Trading Committee’s work again covered three broad themes: relationships with exchanges, responses to regulatory initiatives on analysts and conflicts of interest, and market structure issues (on the last of these also note our work on MiFID – see the section on International Developments above).

The largest single project in 2005 was the work on the proposed transactions involving the London Stock Exchange. At the time of our last Annual Report, we had just released the joint associations' February statement on the principles to be followed in assessing moves towards European exchange consolidation. But we could not give a full account of our work, as the proposed transactions had been referred to the Competition Commission in the UK. LIBA made substantial submissions both to the Office of Fair Trading and the Competition Commission – which were published by the Competition Commission – and also to the relevant authorities in Brussels and Bonn. It remains to be seen whether there will be a consolidating transaction in Europe, and how the benefits of such a transaction will be shared between the owners of the consolidating exchanges and market users.

In 2004, we said: “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”. During 2005, despite the challenging corporate and strategic context, the LSE continued to seek to deliver customer benefits through innovation and investment. We have recently embarked on a fresh series of meetings designed to strengthen and enhance the relationship between the Exchange and its major users. Although we cannot know what 2006 will hold, the search for customer benefits through innovation and investment and the need to share the benefits of technical progress will remain important themes for all exchanges.

The Deutsche Börse group unbundled its charges for the trading, clearing and settlement of cash equities in 2004. It also revised the pricing of equity derivatives, introducing a cap on the fee for large trades, which was extended to equity index products in 2005. We continue to engage in dialogue on fixed income derivatives fees, and anticipate further progress. We look forward to a constructive relationship with the new top team and the achievement of customer benefits in 2006 – including lower costs and the sharing of efficiency gains.

While Euronext did not fully meet users' hopes for formal, structured consultation on tariff changes in the cash markets, in other respects it demonstrated a willingness to listen to market concerns. For example, Euronext.LIFFE created an innovative suite of services in response to demand from the market. We look forward to further dialogue in 2006.

Borsa Italiana, the Italian Stock Exchange, engaged with its users in a dialogue on tariffs for 2006. Its ownership of post-trading assets is currently the subject of a fact-finding investigation by AGCM, the Competition Authority in Italy, announced in September. On 16 December, AGCM announced that it had approved the purchase of a controlling interest in MTS, the bond trading platform, by Euronext and Borsa Italiana, after deciding not to launch an inquiry. Borsa Italiana has undertaken, following its discussions with AGCM and subject to the oversight of the relevant authorities, to guarantee equitable, timely, transparent and non-discriminatory access to post-trading for those requesting it, and to make changes to its regulations and internal procedures. This is a welcome development, in accordance with the thrust of the joint associations' statement.

The SWX Exchange, owners of virt-x, ceased its practice of paying a rebate on cash market fees to members in the fourth quarter, based on volumes in the year to date. However, virt-x is expected to engage in discussions with members on tariff policy in 2006.

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.

*Derivatives
exchange fees*

We also continue to press for fee reductions in exchange traded derivatives (ETD). Recent developments suggest that this message is being heard.

*Analysts
and conflicts
of interest*

Following the debate initiated by the FSA's CP 171 and continued through CP 205, the new rules on dealing ahead of research and research independence came into effect in May and July 2004, and our last Report summarised LIBA's work. The FSA, as promised, conducted a survey of the effect of the new rules on research independence in the last quarter of 2004 and first quarter of 2005: the results demonstrated that progress had been made.

*Enhanced
disclosure of
commission spend*

The final rules on the enhanced disclosure by fund managers of commission spend were published in July 2005, and came into effect on 1 January 2006. Sustained work by LIBA and its Members, co-operating with the Investment Management Association (IMA), has resulted in a proportionate and practicable regime, which can be modified in the light of experience. These new rules are the culmination of a major effort, sustained since the publication of the original proposals for the reform of soft commission arrangements in the FSA's CP 176 in March 2003. With close co-operation between the industry and the FSA, a number of "teething troubles" are in the process of being resolved. (The Taxation section below refers to our separate discussions about VAT aspects.)

Clearing and settlement

The joint associations' February statement has provided the bedrock for our work over the following months. The Committee worked on a mixture of policy issues and practicalities. On policy issues, we considered European settlement policy and regulatory policy questions, described below. Practical work included responding to Euroclear and LCH.Clearnet consultations, joint work with other associations, addressing adhoc market events and our work in Spain, which is being taken forward with the European Securities Forum (ESF).

*European
settlement policy
developments*

European settlement policy developments covered four main areas.

The work of the European Commission (DG Market) on a possible clearing and settlement Directive continued. We have consistently argued against a Directive, noting that any legislation should be carefully targeted to deliver efficiency gains. At a senior level, DG Market is clearly now influenced by the Kauppi report, discussed below.

The work of the European Commission (DG Competition) includes further work in the aftermath of the Clearstream decision, in which Clearstream was found to have discriminated against Euroclear Bank and denied it access to the primary clearing and settlement services of Clearstream Banking Frankfurt.

The work of the CESAME Committee, which is a group of experts convened by DG Market, is aimed at removing the barriers to cheap efficient cross-border settlement. Individual LIBA Members are represented on this Committee. In addition, Members have used LIBA meetings to discuss and review CESAME related documentation such as SWIFT's consultation paper on Barrier 1, and consultations from related industry groups such as the European Primary Dealers Association (EPDA).

Finally, the Kauppi report to the European Parliament on clearing and settlement was adopted by resolution in July. The report recognises the progress made by the industry, calls for any new legislation to be limited to areas where such intervention is justified and emphasises the need for European integration to be market-led. It clearly states that there is direct competition between service providers, and calls on the Commission to demonstrate the need for individual regulatory measures through detailed impact assessments.

We were very pleased that the Internal Market and Services Commissioner, Mr Charlie McCreevy, recognised a broad consensus on the way forward at the meeting held in February 2006.

Regulatory policy developments included the controversial ESCB-CESR work on standards for clearing and settlement, where a search for compromise led to a consultation on the approach to implementing the standards. We remain concerned that this work, which covers both prudential and conduct of business measures for both central settlement infrastructure and "systemically significant" custodians, could hamper the development of the European securities settlement infrastructure. We also considered the Committee on Payment and Settlement Systems (CPSS)-IOSCO work on standards for central counterparties, which is expected to lead to a tightening of procedures, particularly those relating to collateral and risk management.

*Regulatory policy
developments*

In addition to the policy related initiatives, LIBA Members are actively engaged in the delivery of practical changes to the Clearing and Settlement landscape. The main focus of our work has been on LCH.Clearnet's EquityClear project and Euroclear harmonisation. We have also been involved in practical issues in Spain, Italy and the Nordic region. Euroclear consulted intensively on two projects: the new Single Application Platform (SAP) which will bring together settlement of the UK, Irish and Euronext markets with the Euroclear Bank bond settlement business and ESES, an interim project to centralise Euronext market settlement on the French system.

*Dialogue on
practical issues*

We have been concerned to ensure that LIBA Members' views on both the ESES and EquityClear programmes are accurately reflected to Euroclear and LCH.Clearnet respectively. These two projects hold out the greatest hope of efficiency gains and harmonisation in the Euronext markets and the UK and Ireland.

We continue to make it clear to Euroclear that we regard their work on tariffs as very important and would welcome an opportunity to comment before ideas become fixed. This request has been politely received on a number of occasions and we hope that it will lead to action shortly. The absence of harmonisation of tariffs at LCH.Clearnet remains a concern.

We also welcomed progress at CREST on fee cuts, which we feel sets a good example to the rest of Europe, and we look forward to further progress in this area in 2006.

Prime Brokerage Committee

FSA consultations

The FSA's Discussion Paper 05/4 entitled "Hedge funds: A discussion of risk and regulatory engagement" was published in June 2005. The Paper provided a thorough summary of the FSA's current assessment of the risks to the regulator's statutory objectives which hedge funds pose, together with an account of the risk mitigation steps that could be taken. The FSA has stressed more than once that any regulatory action in this area should respond to an identified market failure and be proportionate in terms of its costs and benefits. Overall, Members supported much of the analysis in the paper although we made a number of comments on the details of the FSA's account. In particular, we agreed that in certain areas work should be undertaken to improve good practice standards but, at the same time, we supported the FSA's caution about introducing new regulatory requirements at national level for such an internationally mobile business. Instead, we suggested that the FSA should explore with the regulators of the other leading financial centres the feasibility of establishing an industry code (following the precedent set by IOSCO's work on the Code of Conduct Fundamentals for Credit Rating Agencies). We stressed that EU legislation on hedge funds at this stage would be an unhelpful development. We also referred to the need to combine this work with the UKLA's review of the Listing Rules covering investment companies. FSA's Feedback Statement on the consultation is due before the end of March. We expect this to confirm FSA's recognition of the importance of hedge funds' contribution to the markets and to set out proposals for further work (including additional reporting requirements for asset managers that use hedge fund techniques).

In parallel, in Discussion Paper 05/3, the FSA consulted on the implications of retail investors gaining access to "wider-range" investment products. In our response we focused on questions raised about the position of product providers. LIBA argued that where the product provider firm is using a retail intermediary as a *distributing agent* for its products, then it would be appropriate for the FSA to consider whether changes to the rules are needed to require the provider to take steps designed to ensure that the adviser is competent to advise on the product: in all *other cases*, however, the product provider's responsibilities should be limited to ensuring that the intermediaries advising customers have access to comprehensive information about the product, in particular its characteristics and level of risk. This would enable the adviser, in discharging its own responsibilities, to take into account the kind of customer to whom the product might be sold.

Hedge funds survey

We worked, in addition, on the format of the questionnaire for the FSA's twice-yearly "hedge funds as counterparties" survey. The FSA clearly find this a source of useful information and here, as elsewhere, we welcome the opportunity to work with the regulator in a voluntary, co-operative spirit.

Stock lending and repo

We have also continued to contribute to the work of the Stock Lending and Repo Committee, which is chaired by the Bank of England. The Committee became concerned by the European Commission's proposal to include the equity stock

loan and repo markets in its market transparency work under MiFID. This proposal has not been taken forward.

Fixed Income Markets Committee

The Fixed Income Markets Committee was established in December 2004. Membership is in two parts. The main part is drawn from the LIBA membership. The second part is made up of other trade associations, representing both buy and sell-side institutions. The International Capital Market Association (ICMA), IMA, the Association of British Insurers (ABI) and the BBA are members. TBMA has also been closely involved.

The European debate on transparency in bond markets dominated the work of the Committee in 2005. The focus of this debate is the European Commission's review of bond market transparency, required by MiFID.

*The European
debate*

One important part of the Directive changes the transparency regime for trading equities. The impact cannot yet be assessed, but early analysis suggests that it will be far-reaching, affecting how, and how much, liquidity is provided to the market and potentially tilting the competitive balance between firms, exchanges and data vendors.

Article 65(1) of MiFID¹ requires the European Commission to review the possible extension of the scope of the transparency provisions to markets other than equities. This work is due to be completed by October 2007. Of particular interest to regulators and market participants will be the Commission's conclusions on bond markets.

Discussions held with the Commission in early 2005 on its approach to this review brought out two important points. First, the Commission accepted that bond markets are very different to equity markets, and consequently, if legislative and/or regulatory intervention was found to be necessary, then the form of this could differ from the MiFID provisions for equity market transparency. Second, the Commission said that it took its recent public commitments to evidence-based policy-making seriously and would be taking this approach to the review of bond markets transparency. The Commission officials noted the lack of original research on European bond markets, and expressed interest in the gathering of evidence that would help them to determine whether further regulatory intervention was required.

Our Committee welcomed this approach as one that provided the industry with two opportunities: first, to take a proactive role in the debate; and, second, to demonstrate to regulators the role of high quality and objective research in evidence-based regulatory policy formation. As a result of these deliberations LIBA – along with the ABI, ICMA, IMA and also the Corporation of London – announced that independent research into European bond markets had been commissioned jointly. We now expect the European Primary Dealers' Association and the European High Yield Association to participate in this work also.

Research project

¹ MiFID Article 65(1): the Commission shall, on the basis of public consultation and in the light of discussions with competent authorities, report to the European Parliament and Council on the possible extension of the scope of the provisions of the Directive concerning pre and post-trade transparency obligations to transactions in classes of financial instruments other than shares.

The focus of the research is on a range of questions relevant to a comprehensive regulatory review of market transparency, including:

- Do European bond markets deliver efficient market outcomes?
- To the extent that outcomes are not efficient, could improved pre and/or post-trade transparency improve bond market efficiency?
- To what extent will increased transparency occur as part of the natural evolution of bond markets?
- To what extent does observed opacity reflect an efficient market response, rather than a market failure?
- To what extent can market participants be encouraged to develop their own solutions and what can only be achieved by direct regulatory intervention?

This research has entailed two independent studies. One is concentrating on the corporate bond market; the second is covering sovereign debt. The Centre for Economic and Policy Research (CEPR) has been commissioned to undertake both studies. Professor Bruno Biais of Toulouse University and CEPR is leading the study on European corporate debt markets. Professor Richard Portes of the London Business School and CEPR is leading the study on European sovereign debt markets.

Much of LIBA's Committee's time has been taken in overseeing the progress of this research and providing help, particularly by facilitating access to data and industry knowledge. Final reports are due to be published in May 2006. The Committee expects to make this research available to the Commission and other regulators, and to launch a public policy debate on the back of this research in the latter half of 2006. Both the FSA and the Commission have indicated that the research will form an important and timely contribution to their consideration of the issues.

In addition to the research, FSA's approach to the issue has been an important matter for our Committee. The FSA indicated that it would not be taking action separate to the Commission's decisions on bond market transparency: consequently, the focus of its policy work would be on informing the FSA's contribution to the Commission's review.

*FSA's Discussion
Paper 05/5*

As part of this the FSA published a Discussion Paper "Trading transparency in the UK secondary bond markets" in September. Members of our Committee were involved in a practitioner group set up by the FSA in the lead up to the publication of this DP and, together with the Secretariat, made a substantial and largely successful effort to persuade the FSA to approach the issues with an open mind and employ proper economic and market analysis when determining what, if any, regulatory intervention might be necessary.

LIBA's submission on the Discussion Paper was an interim response, reflecting the fact that our views on the main questions posed in the DP will be informed by the research we have commissioned. The FSA had welcomed our research in the DP and indicated that it would await the outcome before reaching

conclusions and publishing the Feedback Statement on the results of the consultation. (The FSA has now confirmed that its Feedback Statement will be published in June 2006, which will allow time to incorporate the outcome of the research.)

The focus of LIBA's interim response was on the following points:

- We supported what was, overall, a balanced approach to the issues, particularly the commitment to undertake a market failure analysis, and we acknowledged the FSA's welcoming of the research we had commissioned along with others.
- We commented on the methodology in the DP, in particular the approach to establishing the burden of proof for regulatory intervention. Although we strongly supported the commitment to undertake a market failure analysis, we were concerned that the thinking set out in the DP on what this entails was potentially biased towards concluding that a market failure was occurring, when it was not.
- We commented on the fact that the DP included a detailed exposition of possible pre and post-trade transparency policy options, and said that it was premature for this consultation to include a discussion of the "policy solutions" before reaching conclusions on whether or not there was a problem to be solved.

The focus of this sell-side Working Group is on the due diligence undertaken in investment grade, frequent issuer new debt issues. The Group was formed to consider standard industry practice in the field of due diligence in Europe. We are working with TBMA and ICMA on this matter.

*Due Diligence
Working Group*

The Committee has followed MiFID developments during the course of 2005, with a view to tackling particular implementation challenges for fixed income markets when these provisions are finalised in 2006. The Committee considered that the main area of concern will be the implementation of best execution rules, particularly in predominantly quote driven OTC markets.

MiFID issues

The Committee has taken a close interest in IOSCO work, with a view to influencing this where we can. IOSCO has a number of projects under way either on the bond markets or that will have implications for the bond markets. Over 2005, the two main matters have been IOSCO's work on bond market transparency, where we supported the view that IOSCO's deliberations on this matter should await the outcome of the debate in Europe, and the late-2005 consultation on disclosures in international debt issues. The Committee considered that the key audience for this consultation was probably those regulators of emerging debt markets unfamiliar with the regulatory intent behind the standards of debt disclosure in developed debt markets. Nevertheless, there were one or two matters that merited a response and more generally the Committee was keen to show support for IOSCO's decision to invite public comment on regulatory proposals. ICMA drafted the main response to IOSCO

IOSCO

and LIBA wrote in support, drawing attention to three particularly important matters:

- Support for a principles-based approach rather than prescriptive standards.
- The need for clarification that the final principles will not apply to all public offerings and listings of debt securities made under the EU Prospectus Directive.
- The importance of an additional principle setting out the need for a disclosure regime, to balance a number of objectives, in particular the need to facilitate both issuers' access to capital and investors' access to appropriate investment opportunities.

CORPORATE FINANCE

Overview

The new UKLA Listing Regime came into force on 1 July 2005 after two public consultations. During the year there were five Public Consultation Papers (PCPs) issued by the Code Committee of the Takeover Panel which concerned some important changes to the Takeover Code as well as the implementation of the Takeovers Directive.

Work has also been undertaken by LIBA on the Transparency Directive and its UK implementation. CESR has sponsored four public consultations on the implementation of the Directive, and LIBA responses have been reviewed by the Corporate Finance, Securities Trading and Compliance Committees.

Finally, the Committee has been following the developments in Company Law Reform which have culminated in the Company Law Reform Bill: at the time of writing, this is being considered in the House of Lords. Related to this effort, LIBA's responses to the proposed Standards of Investing Reporting have focused on the activities of accountants/auditors in the public issuance and takeover contexts.

The UK Listing Regime

LIBA's Report for last year provided a detailed account of our work on the FSA's Listing Review and Prospectus Directive implementation consultation at that stage (the Prospectus Directive had to be implemented throughout the EU by July 2005). The Listing Rules and the United Kingdom Listing Authority (UKLA) Guidance Manual have been amended and recast into the Prospectus Rules (PR), the Listing Rules (LR) and the Disclosure Rules (DR). The Guidance Manual has not been retained as a separate sourcebook and although some of the guidance – with amendments in some cases – has been imported directly into one of the rule books, much of the guidance in the Manual has been dropped. Following lobbying by LIBA, it was agreed, however, that some aspects should be published in the UKLA publication "LIST!" (which the UKLA characterises as "unofficial" guidance).

Liability issues

In the period after 1 July, we formed a working group which has been reviewing the developments in company law reform touching upon auditor liability as they may relate to new listings and takeovers. This is an emerging issue of importance

which is relevant to the newly acquired statutory authority of the FSA to make rules establishing which parties are responsible for a prospectus. The FSA has promulgated rules which, inter alia, establish that any party who has “authorised” the contents of the prospectus is responsible for the prospectus (or part thereof). The UKLA has indicated that these rules are intended to approximate the status quo ante but has not defined the term “authorised” or offered guidance. We are maintaining a close watch on developments on this issue, especially in view of the intense lobbying effort by the international accounting firms to reduce their own liabilities in this area which also raises questions of fairness and investor protection (on this aspect, also see the section on Company Law matters below).

Takeovers Directive

The DTI and HM Treasury have published consultation papers on the implementation of the Directive (which is required by May 2006). The Takeover Panel and Code Committee have also published an Explanatory Memorandum and a further consultation paper on implementation. LIBA’s responses have strongly supported the continued independence of the Panel as well as those measures which are intended to keep litigation to a minimum in the takeovers context and to enable the Panel to continue to be the sole body to execute and enforce the Code. The Takeover Panel has done a remarkable service to UK markets over many years by its flexible and prompt dealing with issues involved in takeovers. LIBA is keen that its methods and practice can be maintained under the new regime and the approach of the DTI in this regard has been generally encouraging to date.

We have, however, put forward some concerns regarding the proposed implementation measures. Members are concerned that the proposed statutory scope of the Code Committee’s rulemaking authority may be too broad since it would permit regulation of the equity markets in general (outside the takeover context). There are also concerns that the proposed criminalisation of errors made in takeover documentation is unnecessary and certainly too broad. We have proposed that the Code Committee formally incorporate the principles of good regulation into its rulemaking policies which include demonstrating a market failure before legislating and the need to do a substantive cost-benefit analysis before introducing new requirements.

*Members’
concerns*

Takeover Code

There have been five public consultation papers issued by the Code Committee during 2005, including PCP 2005/5 on the implementation of the Takeovers Directive (covered above). In addition to the existing disclosure rules regarding shares, PCP 2005/1 and 2005/2 have resulted in changes to the Code requiring disclosure of transactions by investors holding long economic interests in relevant derivatives referenced to shares aggregating to 1% or more of the outstanding relevant shares. LIBA recognised that the Takeover Panel had become concerned that certain investors holding significant cash settled derivatives referenced to relevant shares (but less than 1% of the outstanding physical shares) were able to influence the acceptance or rejection of offers by influencing the handling of

*New disclosure
requirements*

the votes/acceptances of shareholders who were holding the shares to hedge their derivative positions. However, LIBA argued that the proposed disclosure regime should have a higher trigger level for derivatives at 3%, rather than the 1% trigger for shares and options, because it would be more proportionate and more effective in identifying significant derivatives activity. Given the source of the Panel's concerns, LIBA also argued that the new disclosure triggers should apply only during hostile or contested bids. After several detailed discussions, the Code Committee decided to apply the new disclosure regime at the 1% threshold across all offers to avoid complexity but has agreed to review the position in 18 months reflecting our concerns.

Mandatory bids

PCP 2005/3 proposed that holdings of long cash settled derivatives be treated as physical shares for the purposes of mandatory bids such that, where an investor's holdings of shares plus long derivatives reached 30% or more of outstanding shares, the investor would be required to make a bid for the issuer, without taking into account any short position of derivatives which would in effect offset the long positions. The proposals would follow the so-called "broad approach" rather than the "narrow approach", which effectively would make it unnecessary for the Panel to determine whether there is any intent or likelihood that the control of the target company would be acquired. We have stressed that such a rule would operate as an effective limit on the trading of cash settled derivatives even where no bid has been announced and where there is no intent or likelihood of a transfer of control. As such, it represents in LIBA's view a possible breach of the authorised scope of the Panel's rulemaking authority under the existing Code. We have proposed a modified approach which would allow an investor to make its case but leave the Panel the power to make the decision on whether a mandatory bid is required.

In response to LIBA's concerns, the Code Committee has proposed an exception to its proposed mandatory bid rule for "recognised intermediaries" – ie market makers – conducting client business provided that any "proprietary" business was clearly identified. Solely proprietary desks would continue to be caught by the new rules. LIBA supports this approach and has worked with the Panel to suggest workable definitions of the proposed "recognised intermediaries" and the scope of their permitted activities.

At the time of writing, the Code Committee is considering responses to this PCP.

Transparency Directive

Market makers

The Directive must be implemented by Member States by January 2007. We collaborated with ICMA in its responses to the CESR public consultations of December 2004 and April 2005, but LIBA also responded independently, focusing on the proposals governing market makers and the Directive's exemption for market makers from the disclosure requirement triggered by holding a position which represents 5% of the voting rights. We have also taken the view – which has been accepted in principle by HM Treasury – that the direct supervision of a market maker's compliance with the Directive should lie with its home regulatory authority. LIBA has argued that while an issuer's home regulator has

the duty to ensure that the Directive is observed, it does not have the responsibility to regulate the market making activities of entities in other Member States (for example, a UK market maker trading the shares of a French issuer in the UK rather than through a branch in France). A concern here is that the definition of market making could be varied in Member States indirectly, which could create an artificial barrier to the single market.

Further public consultations by CESR on other implementation issues – such as the specifications of a central depository or network of all regulatory information on issues admitted to listing or trading in the Community – are proceeding

Company law matters

In the UK the Company Law Reform Bill has had its second reading in the House of Lords following a public consultation sponsored by the DTI. LIBA participated in this process and explained that we had concerns with aspects of the proposals to allow the Government the power to reform company law in future without primary legislation because in some cases the method of public consultation could be inadequate. LIBA also registered a concern that the Bill would allow auditors to conclude liability limitation agreements with their clients which could include a cap, which appeared to be inconsistent with the DTI's previously announced principles (one of our specific concerns being that auditors should not escape their full proportionate liability in cases where their reports are part of a public offering or takeover). Related to this issue, our responses to the Auditing Practices Board's (APB) proposed Standards of Investment Reporting – SIRs 1000, 2000, 3000, 4000 – have focused on the activities of accountants/auditors in the public issuance and takeover contexts. We have proposed more explicit disclosure of the accountant's work and process in the body of their reports, so as to make clear the basis of reliance on those reports by investors and corporate advisers. However, in the main, the APB declined to accept our proposals – reflecting concern that this would affect the liability position of accountants or other parties.

Auditor liability

In Europe, the Commission has put forward proposals for a new directive on shareholders rights. LIBA has opposed the proposals to require a thirty day notice for any general meeting and to allow the holder of 5% or more of a company's ordinary shares to amend the agenda and table motions at the meeting. In the UK, it is not unusual that a company would call a general shareholders meeting with fourteen days notice to approve/disapprove a transaction subject to time constraints and LIBA has argued that a standard fixed timetable of thirty days introduces unnecessary inflexibility. On the second proposal, LIBA is not opposed in principle to shareholders having the power to add agenda items and table motions, but companies must retain the ability to call meetings for a specific purpose on flexible timetables, subject to adequate disclosure and opportunity for questions by all shareholders.

EU proposals

There will be further public consultation on corporate governance issues at the EU level.

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 from HM Treasury and the FSA for implementing EU directives – 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 Takeover Code and Listing regime (as outlined above in the Corporate Finance section of this Report), together with further work on the FSA’s wide-ranging proposals on conflicts of interest and unbundling of fees and on FSA’s consultations on hedge funds (see the Securities Trading section).

More generally, we have continued to maintain an overview of the FSA’s relationship with LIBA Members, for example in 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. At the same time, we have had further discussions with HM Treasury about the need for amendments to parts of the Financial Services and Markets Act (FSMA).

Overall, we had expected that the new organisation structure at the FSA which took effect in 2004 would help foster a clearer focus on wholesale market issues – and our experience so far tends very much to confirm that our optimism was justified.

City Liaison Group

As in previous years, much of our work on the FSMA and related secondary legislation has been taken forward through the Financial Services and Markets Legislation City Liaison Group (CLG), to which LIBA continues to act as the Secretary. The other members are the ABI, BBA, FOA, ICMA, IMA, ISDA, Clifford Chance LLP, Freshfields Bruckhaus Deringer and Linklaters. We are very grateful to all members of the Group for the help that they have given.

Service Standards

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, we have pursued the issues further. In the course of the year there were a number of FSA service standard issues that we raised when they were brought to our attention in this way – and on this front the FSA plans to continue to broaden the range of commitments to which it aims to adhere – and we have also continued to contribute to the discussions more generally on the way the Handbook can be improved. A major issue for 2006 will be the FSA’s wish to move to a more principles-based regime (confirmed in its “Better Regulation Action Plan” in December 2005). Clearly, firms will welcome elimination of unnecessary rules. It would be a mistake, though, to believe that replacing detailed requirements with more generally drafted provisions will inevitably be deregulatory in its effect: overall the new framework must allow firms to plan their compliance arrangements and controls with confidence that they will meet the regulator’s requirements in practice. This key

FSA Handbook

issue has helped to shape our work on enforcement, and on trade association guidance (as discussed below).

During 2005 the FSA conducted a wide-ranging review of the ARROW process. This was a welcome initiative. Members remain strongly supportive of the regulator's risk-based approach to supervision, but there were areas where improvements were necessary and we were able to explore the FSA's developing thinking in two helpful meetings, hosted by our Banking Committee, in April and November. We believe that many of the changes that we discussed with the FSA will be reflected as "ARROW 2" is rolled out in 2006. An area of particular interest for a number of LIBA Members will be the future approach to establishing capital adequacy requirements for the smaller firms, where the implications of Basel/CRD Pillar 2 arrangements should provide scope for greater flexibility. We hope to hold further discussions with the FSA about Members' experience of the ARROW process as the new arrangements bed in, not least as regards the provision of peer group information and the introduction of some degree of self-assessment. In addition, we understand that the FSA has recognised that it needs to help firms to achieve a better understanding of the "theme work" that it undertakes. This should enable us to get a clearer feel for the implications for Members' business during 2006.

ARROW

In the wake of the Financial Services and Markets Tribunal's decision in the Legal & General case, the FSA announced that it would conduct a review of its enforcement processes. The CLG – supplemented by Allen & Overy, Herbert Smith, Norton Rose, Simmons & Simmons, Shearman & Sterling and Slaughter and May – had already started work on a submission about the need for substantial changes to the FSA's procedures which built on our earlier discussions with the Enforcement Division. Following the FSA's announcement the Group agreed that the best course was to convert this material into a response to the Review, focusing on developing specific proposals for achieving a fairer process. The FSA published its conclusions in July together with a consultation paper on Handbook amendments to give effect to them. The great majority of the CLG's recommendations had been accepted including substantial changes to achieve a more transparent process and to establish a clearer separation of functions between those investigating a case and those deciding whether sanctions should be imposed.

*Enforcement
Review*

We hope to continue our dialogue with the FSA's Enforcement Division and with the Chairman of the Regulatory Decisions Committee as the new arrangements bed in. One issue to which we may need to return is whether the new system of checks and balances is sufficient to ensure that firms do not feel under unfair pressure to settle early given the incentive to do so that is provided by a new system of fine discounts. More generally, we will be assessing the degree to which the FSA changes its approach to the selection of the kinds of case that it pursues, in the light of the Legal & General decision and subsequent developments. The FSA's approach to enforcement will be particularly important in the context of the proposed move to a more principles-based regime. The Review's conclusion that the FSA should take additional steps to highlight the extent to which the supervisors deal with the great majority of regulatory issues that are identified should also be helpful.

Other major submissions

Changes to the FSMA

The CLG has also led the work on responding to HM Treasury's consideration of the way the FSMA and related secondary legislation should be amended in the light of the issues raised in the review of the new framework two years after "N2" (the "N2+2" Review). The scope for making changes to the primary legislation through the fast track Regulatory Reform Order (RRO) procedure is limited, but in a consultation paper published in December the Treasury was able to bring forward proposals for nine changes to the FSMA. The great majority of the proposals were welcome, but the CLG concluded that three of the measures – which would have removed the obligation to consult on a range of Handbook changes in the future – were too sweeping. We have therefore proposed the inclusion of an additional "notice of intended rulemaking" procedure as a halfway house.

Trade association guidance

In addition, we had pressed HM Treasury to consider amendments to the FSMA provisions relating to the circumstances in which waivers can be granted by the FSA and also aspects of the measures dealing with guidance. In particular, we had sought amendments to allow the FSA formally to endorse guidance produced by trade associations and other bodies. While it was concluded that a RRO could not be used for this purpose, the Legislative and Regulatory Reform Bill which is currently before Parliament is expected to provide a wider range of circumstances in which a RRO can be used for changing primary legislation. We may therefore need to return to the issue in the light of our discussions with the FSA about the scope for using trade association guidance as a means to clarify standards in a principles-based regime. The CLG's work on the need to amend the requirements on disclosing changes in controllers of financial services firms and such firms' "close links" seems likely to bear fruit in 2006, with a further Treasury consultation paper expected before the summer.

Controllers

"Costs of Regulation" project

Our last Annual Report welcomed the FSA's plans to improve its cost-benefit analysis work and this year we have taken a close interest in the FSA's project on the costs of regulation undertaken jointly with the Practitioner Panel. The FSA has said that it may use the results of the project to help set the agenda for possible deregulatory opportunities.

Deloitte was commissioned to undertake the work, which is designed to provide estimates of firms' expenditure on regulatory requirements. Three kinds of business have been reviewed: corporate finance, fund management for institutional clients, and investment/pension advice to retail customers. The project is limited in scope. It has focused on direct incremental FSA-driven compliance costs for firms and neither covers the indirect costs of regulation (such as opportunity costs and barriers to trade) nor FSA Guidance, only FSA Rules. It also excludes the costs arising from compliance activity that a firm would undertake either at the behest of a non-FSA regulator, or as a matter of business practice.

The FSA and Deloitte have put a great deal of effort into helping those participating, including agreeing to modify the original timetable, and we look forward to seeing the results in 2006.

Our work on the main proposals in the FSA's "Handbook Review" consultation (CP 05/10) is summarised in the Financial Crime and Personnel sections below. The CP also set out proposals for reviewing the retail regime as well as the general principles which the FSA intends to follow as it makes Handbook changes in the future. On the former, we expressed some caution about presenting firms with too many changes to cope with at the same time given the demands of MiFID implementation. The latter allowed us to summarise Members' views on the FSA's wish to move to a more principles-based regime and, in particular, the implications that this should have for the regulator's approach to a range of matters including enforcement. We also stressed that the FSA should recognise that firms' priority was to establish improved Handbook "navigability" rather than shorter text and that, in particular, guidance which firms find useful should be maintained. In addition, earlier in the year, we responded to the FSA's request for suggestions on Handbook areas that could be "slimmed" as regards rules which firms considered to be unduly onerous given the consumer benefit provided. We recommended over a dozen changes but the majority of these involved rules covered by MiFID requirements, so that we will have to await the FSA's proposals for implementing the Directive to see whether our suggestions have been taken on board.

*"Handbook
Review"
consultation*

Other issues

During the year the FSA established an Industry Advisory Group to consider possible modifications to the current Financial Services Compensation Scheme (FSCS) financing rules in the light of concerns expressed by some parts of the industry. We have been a leading member of this group, and have stressed in the discussions the importance of maintaining arrangements that ensure that firms' business with wholesale clients (which would not be compensatable) is largely not taken into account when compensation levies are calculated. In practice, the current separate contribution groups for dealing as principal and corporate finance business achieve this result. We have also noted that it was essential to give due weight to the provisions in the FSMA that limit cross-subsidies. (The FSA is expected to publish a discussion paper on proposals for changes to the current FSCS rules in March.)

FSCS financing

As regards the FSA's finances, aspects of the way firms' periodic fees 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, which can mislead when the individuals involved undertake activities in more than one fee-block, or work for more than one firm within a group. We will stress the need to address this problem when the FSA consult on the budget for 2006/07. We have also reminded the FSA that the need to review the current arrangements for transaction reporting fees was agreed by them during the discussions in 2004 on the plans to develop the transaction monitoring systems.

FSA fees

Legal developments

Other work has included responding to a Home Office consultation paper on possible changes to the UK offences of bribery and corruption, where we co-ordinated preparation of the CLG's submission, and work on a number of legal initiatives including a European Commission Communication on Contract Law and the "Rome I" proposal – as discussed in the International Developments section above – and the Law Commission's project on Investment Securities. These exercises have prompted us to establish a Panel representing staff in Members' legal departments to help us to find the most appropriate contacts to assist us to prepare responses to consultations of this kind in the future.

Other matters

Last year's Report described our role in 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. This applied in particular to measures implementing the Market Abuse Directive. The other members of the Group were ISDA, TBMA, the Loan Market Association and the International Association of Credit Portfolio Managers; Clifford Chance were special counsel for the project. Following consultation, the European Supplement to the Forum's Statement of Principles and Recommendations was published in May.

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.

Financial Crime

The focus of the authorities worldwide on matters concerning organised financial crime has not diminished during this year. The terrorist related events in London in July demonstrated how real the threats to public safety remain. LIBA's work focused largely on continuing to assist the Joint Money Laundering Steering Group (JMLSG) with its work on the new Guidance. LIBA Members have allowed their staff to participate in this work, which has been detailed and time-consuming. The reward has been the publication of the final Guidance in February 2006, accompanied by approval by the Chancellor. It now remains to implement the new risk-based approach to anti-money laundering during 2006.

Handbook Review

In July the FSA issued CP05/10 "Reviewing the FSA Handbook, Money Laundering, Approved Persons, Training and Competence, and Conduct of Business". The FSA proposed replacing the Money Laundering Sourcebook with a limited number of high-level provisions in the Senior Management, Systems and Controls Sourcebook. We broadly welcomed this. The FSA published a Policy Statement 06/1 "Reviewing our Money Laundering regime" in January 2006 which also reflected input from LIBA.

These proposals and their acceptance by the industry generally were facilitated by the work of the FSA's Sector team, who set up a forum comprising representatives from all interested parties including law enforcement and Government Departments to examine issues relating to customer identification

and verification. At the same time, many industry representatives were heavily engaged in the preparation and publication of the JMLSG's new Guidance. The combination of these initiatives has resulted in the UK taking a leading position on the international stage with regard to adopting a risk-based approach to anti-money laundering procedures.

LIBA has continued to work alongside other trade associations on the EU Third Money Laundering Directive, which was adopted in November. In addition we, with the BBA, have been liaising with HM Treasury on the proposal for an EU Regulation on information on the payer accompanying transfers of funds – achieving an acceptable measure has been another long and time-consuming task. The draft Regulation was published in November.

*Third Money
Laundering
Directive*

Fraud has become an important issue for the authorities, subject to much media attention. The FSA has announced its fraud policy and is looking to senior management to develop suitable policies in firms for dealing with this sort of financial crime. Currently we work in this area through Members' money laundering reporting officers and during 2006 LIBA will assess whether a specialist group should be established.

Fraud policy

Internal Audit

The Internal Audit Committee has continued to focus its attention on corporate governance, risk and conflicts management and the effect these areas are having on the work undertaken in firms. The Committee has reviewed the FSA's Dear CEO letters issued during the year and discussed their role. Although recognising that these letters can be helpfully informative, there have been concerns about their precise status. Typically, internal audit include checks in their work programmes to take account of relevant letters.

In addition the Committee has reviewed the FSA's discussion paper on its fraud policy, the paper on "build your own Handbook", the reports on offshoring and outsourcing operations to India and countering financial crime in information security, together with Discussion Paper 05/2 on stress testing. We have also continued to follow developments at the Financial Reporting Council including the revised guidance for directors on the Combined Code.

Other developments that the Committee has followed have included relevant EU Directives and papers issued by the Basel Committee – including corporate governance, financial crime, outsourcing and know your customer risk management – and also fraud issues and the JMLSG's new Guidance (see above).

UK Prudential developments

In the context of domestic prudential regulation the main focus of attention has been on the forthcoming implementation of the revised capital framework (via the two recast directives – the Consolidated Banking Directive and Capital Adequacy Directive – collectively known as the Capital Requirements Directive (CRD): see the section on International Developments above).

Progress on implementation has been reviewed with the FSA at the Basel Advisory Group, chaired by the Managing Director, Wholesale and Institutional Markets, and attended by senior industry and association representatives. This has been a useful discipline and has encouraged the FSA to be more transparent with respect to its implementation plans. As the FSA move from the planning phase to implementation, the Group will provide an important conduit for industry feedback on practical issues arising.

*FSA consultation
papers CP 05/3
and CP 06/3*

We have been heavily involved in developing detailed interpretations of the CRD during 2005. The FSA issued a major consultation on implementation in January, CP05/3 – “Strengthening Capital Standards”. This set out the FSA’s overall policy stance and was the first prudential consultation paper in which it had stated an explicit objective of avoiding super-equivalence. It also offered an example of a “copy-out” approach to the Handbook, under which the Directive text would not be subject to domestic interpretation (as is the case in the current Interim Prudential Sourcebooks). LIBA worked with other trade associations in developing a response to this CP.

Consultation with the industry continued during the CP comment period and throughout the year, and we have participated through the FSA Standing Groups covering credit risk, credit risk mitigation, securitisation, trading book, capital and groups and Pillar 2. Further to LIBA and BBA requests, the creation of Expert Groups in 2005 has also helped to establish more focused industry expertise on particular matters. We have been particularly active in a number of these initiatives and have collaborated with other associations in covering the wide spectrum of topics to be addressed.

The results of these efforts have been seen in the Feedback Statement to CP05/3 issued in September and the second major implementation consultation, CP06/3 – “Strengthening Capital Standards 2” – issued at the end of February 2006. Of particular note on the credit risk side has been the progress made on Low Default Portfolios (where a more pragmatic stance to their inclusion within the internal ratings based approach has been taken which has drawn heavily on the work of the Expert Group), Loss Given Default (where the industry and the FSA have worked together to find common ground on interpretation of both Basel and CEBS pronouncements) and Exposure at Default (where work continues).

Additionally, the FSA has modified its stance on capital required as a result of economic cycle stress testing, where a more severe stress scenario has been introduced but with potential to recognise mitigants and capital planning. More pragmatic solutions have been achieved in the treatment of solo consolidation and the integrated groups approach within concentration risk. In the case of integrated groups, there has been recognition that full implementation can be delayed by firms until the results of the EU Large Exposures Review are known. This is of particular benefit to investment firms which have not previously been subject to such a regime. Similarly, the FSA has delayed proposals with respect to the definition of capital until this has been reviewed internationally.

The application of the CRD and Basel for firms operating across jurisdictions has meant that LIBA Members have continued to view Home/Host implementation arrangements as a significant issue. We have continued to raise this matter with the FSA and, in response, a working group has been established to address firms' concerns in this area as well as clarifying the proposed approach to firms with US banking subsidiaries that may be affected by the delay in Basel implementation there.

Other issues

Additionally the FSA has conducted exercises in respect of integrated regulatory reporting, a consultation paper on which is expected in May 2006, and stress testing, which is likely to feature as part of ARROW reviews during the year. We have worked jointly with the BBA to contribute to these discussions.

On the Prudential Sourcebook project, the expected changes to the systems and controls sections were delayed by the FSA at the end of 2004. As MiFID implementation plans have become clearer, this work has picked up again, and a CP is expected in May 2006.

ACCOUNTING

The move to International Accounting Standards

The Accounting Committee's work has for several years been dominated by preparations for the move to (updated) International Accounting Standards (IAS) and (new) International Financial Reporting Standards (IFRS) under the IAS Regulation. With minor transitional exemptions, this Regulation requires companies listed in the EU to prepare their consolidated financial statements under IAS/IFRS with effect from January 2005. With most such companies now producing their first set of IAS/IFRS accounts, the main focus of the International Accounting Standards Board (IASB), and of the relevant EU and UK standard-setting and regulatory bodies, has shifted to implementation-related issues. These include ensuring the consistent application of IAS/IFRS across the EU, determining the extent to which US (and other third country GAAP) should be considered equivalent to IAS/IFRS, and progressing convergence between IAS/IFRS and US GAAP. This shift has been reflected in the work of our Accounting Committee, and to some extent other committees, who have submitted comments on a number of consultative papers from the European Financial Reporting Advisory Group (EFRAG), CESR, the Basel Committee, the DTI and the FSA, as well as from the UK Accounting Standards Board (ASB) and the IASB itself.

IAS Regulation

Implementation issues

Amongst the implementation-related topics, LIBA made a substantial contribution to the discussion on procedures to ensure consistent application of IAS/IFRS and on the work by CESR – and latterly by the European Commission – on the equivalence of US GAAP. Topics of particular interest on the convergence front have included the detailed guidance on the use of the Fair Value Option, the treatment of “day-one profits” and a major review of the standards for Business Combinations. Our informal IAS Implementation Working Party has also considered some key practical issues with the move to IAS/IFRS, including

detailed analysis of the new standards themselves, and continues to provide a very useful forum for the informal exchange of ideas.

IASB governance

We have also contributed to the IASB's continuing review of its operating procedures and governance, and those of the associated International Accounting Standards Committee Foundation (IASCF) and International Financial Reporting Issues Committee (IFRIC). A key aim of these reviews is to improve the credibility of the IASB's due process, particularly in parts of the EU where there has been a perception that the IASB has been excessively influenced by Anglo-Saxon thinking.

Impact of IAS/IFRS

While considerable progress has been made in developing a comprehensive and effective set of IAS/IFRS, overall judgement on the real impact on preparers and users of accounts has to be reserved until all listed companies have produced at least one set of annual accounts under the new regime. It is clear, however, that considerable work remains to be done to refine and improve the existing standards as well as to develop appropriate procedures for monitoring their consistent application and the consequential regulatory and fiscal effects of the change. The good news is that the debate on these issues, both in the UK and elsewhere in the EU, appears to be taking place in an increasingly constructive and positive atmosphere.

In parallel with the international developments, the ASB is experiencing some opposition to its strategy of moving substantially all of UK GAAP into line with IAS/IFRS over the next few years, with many of those entities that are not caught by the IAS Regulation expressing a preference for sticking with something closer to existing UK GAAP. While sympathising with their concerns, we continue to believe that the UK should move towards full adoption of IAS/IFRS over a reasonable timescale.

Other accounting developments

Amongst other accounting-related topics, we were able (working with ICMA) to persuade the European Parliament to amend Article 39 of the Statutory Audit Directive so as to remove from SPVs used for securitisations the potentially onerous requirement to have an Audit Committee. An indirect consequence of this work was an invitation for LIBA to join the European Commission's Auditors Liability Forum, which is assisting the Commission in its review of the EU legal framework for auditor liability. On the domestic front, we continue to participate in the ICAEW's high-level Audit Quality Forum, which is considering a number of key audit issues in the UK.

The Committee has also maintained a largely watching brief on a number of other developments in accounting and reporting, in particular issues arising in relation to the implementation of the EU Prospectus and Transparency Directives (LIBA's work on these measures is covered in the Corporate Finance section of this Report above).

TAXATION

Her Majesty's Revenue & Customs

2005 has seen the first stages of the merger of Customs and the Inland Revenue into Her Majesty's Revenue & Customs (HMRC), and the concomitant transfer of much of the policy-making functions to HM Treasury. At the upper levels these moves appear to have gone well, and although we feel there are still some areas where the demarcation of functions is not yet wholly clear, this has not impeded our generally excellent relationships with policy-makers in both departments.

Integration of the operational activities of the two departments is inevitably taking longer, and our Members report little change so far at the level of their day-to-day contacts. Achieving HMRC's stated aims of reducing compliance costs, particularly for smaller companies, and improving efficiency, notably in the form of a net reduction of 10,500 jobs by 2007/08, will entail significant reorganisation. We look forward to working with officials to ensure that these changes are implemented as effectively as possible, at least insofar as they affect our part of the financial services industry.

EU "Savings Tax" Directive

As foreshadowed in last year's Annual Report, the EU "Savings Tax" Directive finally came into force at the end of June 2005, after more than six years of active debate. The Directive requires information on the savings income of non-residents of 22 Member States 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 they will come into line with the others if and when the US and Switzerland adopt OECD standards on information exchange. Under agreements with the EU specified "third countries", including Switzerland, Liechtenstein and Monaco, the UK Crown Dependencies (Channel Islands and Isle of Man) and the UK and Dutch Caribbean Dependencies are imposing withholding taxes at the same rates on EU taxpayers. We believe that this introduction of automatic exchange of tax information across 22 countries puts the EU on morally higher ground in future OECD discussions on tax evasion, and will thus make it easier to exert pressure on countries that are reluctant to co-operate.

LIBA continues to provide the Secretariat for the "City Group", an informal grouping of UK trade associations and major market operators which coordinates industry views on the Directive. Group members include the BBA, IMA, ICMA, 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 City Corporation, as well as some fifteen major banks.

*Work of the City
Group*

The City Group's main focus in the past year has been in working with HMRC to resolve a number of points of detail over the implementation of the Directive

in the UK. Although this work is now largely completed, the Group will continue to provide a forum for dealing with any unforeseen practical difficulties which emerge once information starts to flow under the provisions of the Directive.

Anti-avoidance reporting regime

Both the March 2005 Budget Statement and the December Pre-Budget Report (PBR) contained further anti-avoidance measures focused on the financial services industry, including measures aimed at “arbitrage schemes that involve hybrid entities or hybrid instruments”, and refinements to the anti-avoidance reporting regime introduced in 2004. HMRC consulted fully on all these measures and made a number of modifications which made them considerably less burdensome – for them as well as for LIBA Members. It is clear that HMRC believe there are still loopholes to be closed and we expect to maintain very close contact with the officials concerned on any further moves in this area.

Other tax issues

As mentioned in our previous Report, the December 2004 PBR announced changes aimed at a significant tightening of the rules for Foreign Tax Credits, which caused significant concern as to their practicability and their potential effects on the market. A series of constructive meetings with HMRC resulted in a much improved regime, which so far appears to be working well in practice. Other topics discussed with HMRC and/or HM Treasury officials during the year included the VAT implications of the enhanced transparency proposals developed to meet the concerns raised by the FSA in its work on unbundling, the forthcoming EU Review of the Financial Services VAT Exemption, and problems with HMRC audits of the stamp duty exemption for charities.

Retrospective legislation

In last year’s Report we also referred to our concerns over the precedent that could be set by the Paymaster General’s proposals to counter certain structures aimed at avoiding income tax and/or National Insurance contributions on bonuses, and in particular by her 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”. We protested strongly against the principle of this sort of retrospective approach and, following a series of exchanges with senior HMRC officials, we have received assurances that such moves will not be undertaken lightly in the future.

Stamp Duty

We are disappointed that yet 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 and 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 have again stressed these points at high levels within HMRC, and we hope that HM Treasury and HMRC will continue to

focus on this issue, and will come to recognise the case for eventual abolition of these taxes.

The OECD has made only limited further progress on its major review of the taxation of bank permanent establishments (PEs). In particular, the industry has had virtually no feedback following what appeared at the time to be a very constructive consultation meeting in Paris in October 2004 and subsequent representations, made under the auspices of the Institute of International Bankers and the EBF, which we hoped would result in the OECD removing at least some of the worst features of their “discussion drafts” of the future treatment of PEs. We hope that HMRC will encourage the OECD to look seriously at the industry proposals, which would, we believe, significantly improve the proposed new rules.

OECD initiatives

Finally, we again used our annual tax submission 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.

Fiscal legislative process

PERSONNEL

The Personnel Committee is LIBA’s forum for discussion of personnel practice and employment law, together with related matters including the FSA’s training and competence regime and the work of the Financial Services Skills Council (FSSC).

In the course of the year the Committee has considered a range of legislation including the Information and Consultation of Employees Regulations 2004, the Disability Discrimination Act 2005 (implemented in December), amendments to the Sexual Orientation Regulations, the Government’s draft Bill for reform of Corporate Manslaughter and its proposals regarding Age Discrimination, as well as the Work and Families Bill published in October 2005 (containing outline proposals to help working parents balance the demands of their jobs with caring for their children by introducing a modern framework of rights and responsibilities, with the details to follow in regulations to be consulted on in 2006).

In addition the Committee has discussed issues arising from the pensions changes coming into effect in April 2006, the various Codes (including health information) issued by the Information Commissioner’s Office regarding data protection, the implementation of the new maternity and paternity leave arrangements, and the use of flexible working (especially for women returning from maternity leave). We have also continued to monitor EU initiatives including the proposals for Working Time and Temporary Agency Workers Directives.

Approved Persons

As noted in the Compliance section above, in July the FSA issued its “Reviewing the FSA Handbook” consultation (CP05/10) as part of its proposals for streamlining the rule book. Working with LIBA’s Compliance Committee and alongside other trade associations, awarding bodies and training organisations, the Committee prepared the response to the Approved Persons and Training and Competence proposals. We recognised, given the FSA’s wish to move towards a more principles-based regime, the aim of allowing for greater flexibility in the approach adopted by wholesale firms to training. However, we emphasised the need for a controlled transfer from the current prescribed regulation to the more flexible approach being promoted by the FSA. In addition, there was some concern regarding the general difficulty which firms might encounter in maintaining a transparent, known entry level regulatory standard for employees where an examination framework to benchmark standards was not available.

With regard to the Approved Persons regime proposals more generally, LIBA strongly disagreed with the FSA’s intention to abandon the regime for those individuals dealing only with non-private customers: our Members see the central register as a cornerstone in delivering compliance in the wholesale sector. On this part of the proposals the FSA’s Feedback Statement stated that there were MiFID implications that had to be addressed – so the final outcome as regards the Register remains uncertain at the time of writing though no immediate changes are expected. The Statement confirmed, however, that the FSA would be going ahead with its proposed changes in the Training and Competence regime (but would consider further the possibility of introducing a safe harbour for firms), and that it would align the time for implementation with the UK implementation of MiFID (not before November 2007); in addition, the FSA confirmed that it would proceed with a review of the whole Training and Competence regime. This situation, if perhaps not wholly satisfactory, should enable the wholesale sector to address the changes on training, and liaise with all interested parties to fill the gap that may be left when the new requirements come into effect.

Other issues

Other work undertaken by the Committee included reviewing the FSA’s discussion paper on its policy for fraud and dishonesty, liaising with the FSSC on its work programme and commenting on FSSC’s consultation on “Examination Review, Strand 2, Overseers”. We also commented on the proposed Performance Standards for Compliance Officers and Anti-Money Laundering personnel. In addition, we considered the new Corporate Finance qualification launched by the ICAEW in association with the Securities and Investment Institute. The Committee has also considered the remuneration aspects of the corporate governance papers produced by the Basel Committee.

ADMINISTRATION, CONTINGENCY PLANNING AND BUSINESS CONTINUITY

The Administration Committee has continued to take the lead within LIBA on business continuity and disaster recovery matters. The events in London during July 2005 were a reminder to all of the real threats to our security and safety. The Committee considered the impact and lessons learned from the events, including how their firms had dealt with the incidents and also the follow-up actions that had been taken subsequently. This contributed to the Tripartite Committee's planning for the 2005 Market-wide Exercise, in which LIBA Members played their part.

The exercise (the largest in the world that had occurred to date) took place in November. The overall objectives included increased focus on decision making and communications including the role of cross market committees, civil contingency involvement, media simulation and – for the first time – the international dimension (through a number of firms receiving calls from the SEC and Federal Reserve, while other international regulators observed the exercise). Opportunities were provided for participants to extend the exercise internally to assess their own plans. Lessons learned from this exercise will be published in 2006 and, in the meantime, we have reviewed the two Resilience Benchmark Project reports (an interim report issued in June, and a discussion paper in December) published by the Tripartite Committee: at the time of writing our response to the December paper is being finalised.

*Market-wide
exercise*

Towards the end of the year, the Committee discussed procedures that were in place for responding to a pandemic flu outbreak: issues covered included the likely impact, control processes, staff concerns and overall awareness. This work continues, and LIBA has now been invited by the Tripartite Committee to join its Financial Sector Discussion Group on Pandemics.

Other issues

In addition, and as in previous years, the Committee has looked at a wide range of topics including building administration, space planning and the use of "hot desks", flexible working, consolidating accommodation, security, environmental audits ("how green is your business?"), specialist recruitment matters, the suitability and use of computer based training for administration purposes, office cleaning, archiving and records keeping/management policies, contract procurement/tendering processes, the benefits of benchmarking exercises as well as outsourcing and offshoring issues.

COMMITTEES OF THE ASSOCIATION

The Association has six committees representing Members' interests in Corporate Finance, Securities Trading, Fixed Income Markets, Prime Brokerage, Banking and Compliance. In addition, there are eight specialist committees (listed below) and working parties are appointed to deal with particular issues when the need arises.

The work of all the committees is co-ordinated by the Chairman's Committee.

COMMITTEES

The Members of the main committees at March 2006 were as follows:

Corporate Finance

Mr S. Dingemans (<i>Chairman</i>)	–	Goldman Sachs International
Mrs P. Adomakoh	–	N.M. Rothschild & Sons Limited
Mr A. Defriez	–	UBS Investment Bank
Mr J. Grace	–	Investec Investment Banking
Mr M. Jarman	–	Lazard & Co., Limited
Mr J. Manson	–	Morgan Stanley & Co Limited
Mr C. Smith	–	JPMorgan Cazenove
Mr K.J. Smith	–	Merrill Lynch International
Mr H. Somerset	–	Dresdner Kleinwort Wasserstein
Mr S. Upcraft	–	Lehman Brothers Europe Limited
Mr C. Wilkinson	–	Deutsche Bank AG London
Mr G.T. Willett	–	ABN AMRO Corporate Finance Limited

Securities Trading

Dr R.D.F. Barnes (<i>Chairman</i>)	–	UBS Investment Bank
Ms N. Beattie	–	Merrill Lynch International
Mr J.C. Birch	–	Goldman Sachs International
Mr J. Brown	–	JPMorgan Cazenove Limited
Mr D. Crookston	–	J P Morgan
Mr T. Eckert	–	Dresdner Kleinwort Wasserstein
Mr F. Evangelista	–	BNP Paribas Arbitrage
Mr M. Halliday	–	Credit Suisse
Mr R. Kyle	–	Citigroup Global Markets
Mr J. Lowrey	–	Lehman Brothers
Mr P. Randall	–	Instinet Europe Limited
Mr P. Reeves	–	Deutsche Bank AG London
Mr D. Russell	–	Morgan Stanley & Co International Ltd
Mr J. White	–	HSBC Bank plc
Mr A.C.D. Yarrow	–	Dresdner Kleinwort Wasserstein

Fixed Income Markets Committee

Mr M. Ridley (<i>Chairman</i>)	– J. P. Morgan Securities Ltd
Mr G. Ashton	– Barclays Capital
Mr Z. Awad	– Goldman Sachs International
Mr D. Bowler	– Morgan Stanley International Ltd
Mr N. Denison	– WestLB AG
Mr A. di Lorenzo	– Winterflood Securities Limited
Mr A. Downes	– UBS Investment Bank
Mr C. Longden	– ABN AMRO Bank N.V.
Mr C. Mundigo	– BNP Paribas
Mr M. Satterthwaite	– Deutsche Bank AG London
Mr M. Watson	– Citigroup Global Markets Limited
Mr R. Britton	– International Capital Market Association
Mr J. Hale	– Association of British Insurers
Ms J. Lowe	– Investment Management Association
Mr M. McKee	– British Bankers' Association

Prime Brokerage

Mr S. Aganga (<i>Chairman</i>)	– Goldman Sachs International
Mr A. Angelone	– JPMorgan
Mr B.J. Bisesi	– Lehman Brothers
Mr M. Brian	– Barclays Capital
Mr S. Foster	– Credit Suisse Securities (Europe) Limited
Mr J. Hitchon	– Deutsche Bank AG London
Mr P. Lambert	– Bear, Stearns International Limited
Ms K. Lee	– UBS Investment Bank
Mr T.J. Minkey	– Bear, Stearns International Limited
Ms K. Mulhall	– Morgan Stanley & Co International Ltd
Mr R. Munro	– UBS Investment Bank
Mr J. Phillips	– Barclays Capital
Mr T. Platt	– Merrill Lynch International
Mr N. Roe	– Citigroup
Mr J. Tracy	– Morgan Stanley & Co International Ltd
Mr S. Vora	– Citigroup Global Markets Limited

Banking

Mr H. Angest (<i>Chairman</i>)	– Arbuthnot Banking Group PLC
Mr M.R. Aish	– N.M. Rothschild & Sons Limited
Mr J. Spence	– Singer & Friedlander Limited

Compliance

Mr R.J. Levy (<i>Chairman</i>)	- Goldman Sachs International
Mr M. Bailham	- Morgan Stanley International Ltd
Mr J.T. Brown	- JPMorgan Chase Bank
Mr D. Cooper	- HSBC Bank plc
Ms C. Curtis	- Lehman Brothers
Mrs S. Docx	- BNP Paribas
Mr D. Gordon	- Nomura International plc
Mr P. Haines	- Bank of America
Mr M. Hart	- ABN AMRO Bank N.V.
Mr G. Lewis	- CIBC World Markets
Mr A. Procter	- Deutsche Bank AG London
Mr C. Ross-Stewart	- UBS AG
Mr G. Russell	- Credit Suisse

SPECIALIST COMMITTEES

Accounting
Administration
Financial Regulation
Internal Audit
Personnel
Settlement
Taxation
VAT

MEMBERS OF THE ASSOCIATION

ABN AMRO Bank
Altium Capital Limited
Arbuthnot Latham & Co., Limited
Arbuthnot Securities Limited
BNP Paribas
Banc of America Securities Limited
Barclays Capital
Bear, Stearns International Limited
Brewin Dolphin Securities Limited
Bridgewell Group Limited
British Linen Advisors Limited
Calyon
Cantor Fitzgerald Europe
CIBC World Markets
Citigroup
Close Brothers Corporate Finance Ltd
Collins Stewart Limited
Credit Suisse Securities (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
ING Bank NV London Branch
Instinet Europe Ltd
Investec Bank (UK) Limited
JPMorgan Cazenove Ltd
J.P. Morgan Securities Ltd
KBC Peel Hunt Ltd
Lazard & Co., Limited
Lehman Brothers
Libertas Capital Group plc
Merrill Lynch Europe PLC
Mizuho International plc
Morgan Stanley International Ltd
Nomura Code Securities Limited
Nomura International plc
N M Rothschild & Sons Limited
Numis Securities Limited
Oriel Securities Limited
Panmure Gordon & Co
PiperJaffray Ltd
Robert W. Baird Group Limited
Sanford C. Bernstein Limited
Singer & Friedlander Limited
Société Générale
3i Group plc
UBS Investment Bank
WestLB AG
Winterflood Securities Limited

