

LIBA

LONDON INVESTMENT BANKING ASSOCIATION

ANNUAL REPORT

2003

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.

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Action Plan, E-commerce and Financial Promotion

Corporate Finance and related EU Issues

Accounting, Finance, Taxation and VAT

Internal Audit, Personnel, Financial Crime
(Fraud, Money Laundering and Terrorist
Funding), Business Continuity and Compliance

Financial Regulation, Risk Management
and other Prudential Supervision

Equity Financing, Securities Trading and
Settlement (including Treasury Operations)

Administration (including Business Continuity)

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INTRODUCTION BY THE DIRECTOR-GENERAL, SIR ADAM RIDLEY

This year we are publishing the Chairman's Statement in a separate letter which will where possible be distributed together with this Annual Report.

The account that follows summarises our work during 2003 and the early part of this year, and I must stress our thanks to all those Member firms whose collective efforts have contributed so much to LIBA's achievements.

Members of LIBA will, I hope, be impressed and delighted to learn that the well-known magazine "Compliance Reporter" has chosen our director, Timothy Baker, as Lobbyist of the Year in its May issue. This accolade has been awarded to him for his work, in co-ordination with other associations and experts from Members, in successive consultations on the Investment Services Directive (ISD). The citation describes his work as "the pinnacle of effort and achievement in LIBA's lobbying" and called Timothy "the single main force in achieving the outcome which eventually emerged". It concluded with the comment that "the ISD would have been far worse were it not for Baker's almost single-handed and Herculean efforts in bringing some reason to the process and outcome".

I should add that this achievement reflects, as Timothy is the first to stress, a great deal of expert support and hard work by Members and fraternal associations who collaborated in these consultations. Let us hope that we shall be able to maintain such effective co-operation in future exercises of this kind – of which there will doubtless be all – too – many!

Sir Adam Ridley
Director-General

May 2004

REPORT OF THE CHAIRMAN'S COMMITTEE

CORPORATE FINANCE

Overview

The Corporate Finance Committee welcomed Mr Simon Dingemans as its new Chairman in May 2003 and Bill Ferrari became Secretary to the Committee in October, succeeding John Serocold.

An important focus in the past twelve months has been on practical issues arising in the listing and takeover processes which have been identified by LIBA's Members. The Committee has approved submissions on the Prospectus Directive, the Takeover Directive and CP 203, the FSA/UK Listing Authority consultation paper on the Listing Regime (which also anticipates relevant Financial Services Action Plan – FSAP – Directives coming into force during the next two years).

Review of the UK Listing Regime

During the year the UKLA established a number of committees and “theme teams” in which LIBA Members participated. LIBA and various Members also participated in the deliberations of the Listing Review Consultative Committee. This was formed to give comprehensive advice and broad perspective to the UKLA's consideration of the Listing regime against the background of the EU directives on prospectuses, transparency, and market abuse. These efforts culminated in the publication of CP 203 in October. This set out in detail the main elements of the UKLA's thinking on a number of policy issues and proposals, and LIBA formed a Working Group to consider these.

Submission on CP 203

In our submission on CP 203, LIBA opposed the introduction of six proposed overarching Principles which would be enforced as rules vis-à-vis issuers, and we reminded the UKLA of our previous dialogue with the FSA as regards enforcement of the regulator's eleven Principles for authorised firms. It is clear that the Principles proposed in CP 203 are intended to increase substantially the enforcement powers of the UKLA over issuers and their advisers. Some of the proposed Principles are so broad as to be ambiguous when used to define prohibited conduct. Some overlap with others. LIBA also objected to the proposal to authorise the UKLA to remove a director for serious violations of the Listing Rules, since adequate power already exists in the hands of the DTI.

LIBA registered Members' concerns about the proposed restructuring of the rulebook into three modules (Equities, Debt, Financial Products). Members felt that this would not benefit issuers very much and that it would be costly to practitioners, who are broadly satisfied with the current Listing Sourcebook and do not believe that the training costs which would be entailed by a restructured rulebook would be worthwhile.

Members' views on the sponsor regime are divided. As explained in LIBA's response to the consultation, the majority view is broadly that the sponsor regime should be maintained but without any increase in regulatory controls. The minority view is that there is no need for the current sponsor regime since

corporate advisers and auditors provide the underpinnings of a sponsor's due diligence in any case. We also stressed that no Member agreed with the proposal that the use of sponsors should be made optional.

We were in favour of maintaining the UK's "super-equivalent" requirements for the admission of equity issues to the Official List, with some flexibility in the hands of the UKLA. Super-equivalent requirements – which include a three year track record and a twelve month working capital report – support the current reputation and position of the London market. For competitive reasons, LIBA Members generally did not favour super-equivalent eligibility requirements for debt issues, however, and supported certain grandfathering provisions for issues currently listed. They also favoured flexibility vis-à-vis non-EU issuers as regards implementation of International Accounting Standards (IAS). Instead of a full IAS accounts requirement, we therefore proposed that it should be sufficient for such issuers to provide a reconciliation of their accounts drawn up under their home accounting standards to IAS.

Finally, we recommended that the UKLA should issue guidance to issuers not to put pressure directly or indirectly on research analysts to secure more favourable treatment. Undue pressure could include excluding a research analyst from company briefings for unfair reasons or threatening to withhold business from the analyst's group in response to an unfavourable research report.

The UKLA will be issuing a feedback statement and its formal rule proposals in a consultation paper in September 2004, for reply by the end of the year.

Prospectus and Transparency Directives

Our policy during 2003 was to support the other associations which were addressing both the proposed Prospectus Directive and the Transparency Directive, in particular the International Primary Market Association (IPMA). The Prospectus Directive was published in the Official Journal on 31 December 2003 and must be fully implemented by Member States by 1 July 2005. The Directive is a maximum harmonisation measure so that a prospectus approved by one Member State may be used for admission to trading in any Member State. Member States will not be allowed to impose any higher or more stringent requirements on an issuer whose prospectus is approved by its home Member State. The Committee of European Securities Regulators (CESR) has published a "call for evidence" to be used in formulating its proposals to the European Commission on implementing the Directive. The Commission will adopt a regulation whose terms will have direct effect in all Member States, which should pre-empt material divergences by Member States from the Directive's requirements. Some of the larger issues which have emerged relate to special purpose vehicles, the requirement for prospectuses to use IAS as it may affect non-EU issuers in the EU, certain important grandfathering requirements, and the cost and difficulty which would arise in changing from other accounting standards to IAS. The regulation and CESR guidelines will be subject to public consultation and are to be completed by the end of 2004.

*Prospectus
Directive
implementation*

*Transparency
Directive
proposal*

Closely related in terms of the single market objective is the Transparency Directive which is expected to be agreed in the first quarter of 2004. The Commission had stressed that all listed companies should publish quarterly reports. This was strongly resisted by many companies and the financial services sector for reasons of cost and efficiency. Our views coincided with those of IPMA and the CBI that quarterly reporting could lead to a more short-term management perspective which, in turn, could harm corporate governance and performance. We stressed that keeping the market informed of price sensitive information, when combined with twice-yearly financial reports, would be sufficient. We also felt that the practice of making trading statements at the annual meeting and before the “close period” towards the end of the financial year provided an opportunity to comment on trends in the first and fourth quarters. At this stage it is probable that the final terms will provide that those companies not issuing quarterly reports will need to issue a public management statement, both during the first and the second six month periods of its financial year. The management statement would include an explanation of material events and transactions during the period and their financial impact on the issuer and its subsidiaries. It would also include a general description of the financial position and performance of the issuer during the relevant period. The required reports and management statements would be published throughout the EU through electronic means. Home Member States may require publication of reports and statements in newspapers or other periodicals.

*Accounting
issues*

The issue of equivalence of accounting standards was also raised in the debate on this Directive. It was agreed that the Commission will determine whether the accounting standards used by a non-EU issuer are equivalent to IAS. Until the Commission does so, the Home Member State may do so on an interim basis, provided that it determines that the accounting standards being evaluated give a true and fair picture of the issuer’s financial position.

Market Abuse Directive

This Directive was adopted in early 2003 and is to be implemented by all Member States in October 2004. It covers insider dealing, market manipulation, investment research, conflicts of interest, and certain disclosure issues. The Directive’s approach is in many respects like that taken by the current UK regime.

The Directive defines market manipulation as trading which gives false or misleading signals to the market, transactions employing fictitious devices, and public dissemination of information which gives false or misleading signals. The Directive also sets requirements for investment research, including the disclosure of the identity of the author as well as the interest and any conflicts of interest of the analyst and firm.

LIBA submitted a response to a call for evidence issued by CESR in early 2003, which covered the appropriate definition of “accepted market practices”, the onerous duty of issuers to maintain a list of insiders, and information concerning

derivatives. HM Treasury and the FSA are expected to publish a consultation paper on implementation in May 2004.

EU Takeover Directive and related issues

As the year proceeded, the perception grew that the proposed Takeover Directive would not be adopted before the European Parliament elections in June 2004 because of a split between the European Commission and the Council of Ministers over certain key provisions in Articles 9 and 11 of the Directive. Article 9 restricts an offeree board from taking defensive actions to frustrate bids (other than seeking alternative bids) without shareholders' specific approval. Article 11 contains "breakthrough" provisions which render certain restrictions on voting or transfer of shares unenforceable for the purpose of frustrating a bid. LIBA argued that these Articles must be a part of any EU measure and binding on all Member States. However, in the event, the articles were included but are now subject to Article 12 which permits Member States to opt in or out of Article 9 and/or Article 11. If a Member State opts out of Article 9 or 11, companies may nevertheless opt in. Member States also have the ability – where they opt into Articles 9 and 11 generally – to permit a company to decide that it will not be bound by the provisions in those Articles in the case where it is a target of an offeror company which is not subject to the Article in question.

The end result is thus far from the initial objective of harmonising Member States' regulation of takeovers. In addition, the UK will now have to put the Takeover Code on a statutory basis, and the Takeover Panel will have to operate in a potentially more litigious environment.

We have also engaged the DTI on its proposed transposition of the Informing and Consulting Employees Directive (ICED) into UK law as it relates to takeovers. LIBA supported the Takeover Panel's view that there should be no requirement to inform or consult employees before the public announcement of a bid. Our reasons included the need to maintain an orderly market and to protect against insider dealing or a false market in a company's shares. Consistent with our interpretation of ICED, we have proposed that the relevant UK legislation should generally allow an offeror company to delay informing and consulting representatives of its employees about a bid which may affect employment until the public announcement of the bid. To date the DTI has maintained that offeror companies should make their own determinations, on a case by case basis, as to whether informing or consulting their employees will seriously harm the functioning of the enterprise or be prejudicial to it. Members believe that the provisions in the draft statutory instrument would lead to a more litigious process with greater risk of false markets since offerors' determinations would be subject to challenge. Discussions are continuing.

Consulting employees

Takeover Code

A LIBA Working Group was established to review the Takeover Panel's arrangements governing exempt fund managers (EFMs) and special exempt fund managers (SEFMs) as a result of Members' concerns that the regime was unduly

Exempt fund managers

burdensome, costly and, perhaps, in need of revision in line with regulatory and business developments in recent years. Specifically, our Members take the view that their Chinese walls and other conflict management policies prevent the kind of collusion between the corporate advisory business units and the fund management business units which gave rise to concern in the past. Fund management units are regulated in their own right and owe a duty to their clients to manage clients' assets independently, and their investment policies are monitored internally and externally.

The Working Party developed a set of preliminary proposals for the Takeover Panel to consider. The main element was that the focus of Panel regulation should be the corporate advisory businesses conducting takeover business rather than the EFM/SEFM. We also made proposals for streamlining the process for EFM/SEFM designation if the current arrangements are maintained and for improving trade reporting requirements.

Reduced requirements

Subsequently the Panel Executive has said that the information requirements for EFM/SEFM designation and renewal will be significantly reduced and that the renewal process will be biennial (instead of every twelve months), which will result in a halving of related regulatory charges. While LIBA welcomed these modifications, we have requested a written response to our initial proposals – including the rationale for not adopting them – unless the Panel confirms that there will be a public consultation later this year, which will cover the relevant issues.

SECURITIES TRADING

Overview

The work of our Committee has covered four main areas over the year: cost control, infrastructure consolidation, competitive initiatives and policy work. The background to this has been the need to establish the right balance between the shareholder value objectives of the exchanges and the interests of exchanges' users. The Committee deepened and extended relationships with the principal European exchanges and developed a set of 'Principles for exchange tariffs' to underpin its work with the exchanges on the costs charged to users.

The Committee's cost control work was supported by a number of leading LIBA Members who put much effort into studying trends in cash equity trading and the changes in exchange tariff policies. We examined both publicly available data and pooled data from individual Members. This work has already underpinned some important initiatives and we look forward to further gains from developing it in future years.

Exchanges' fees

Our first concern was the fees charged for cash equity trading. The exchanges responded to the propositions put forward by the LIBA community in different ways. Virt-x, created from the merger of Tradepoint and SWX, the Swiss Exchange, held fees in 2003 and promised a rebate to customers at the end of the year, which was duly delivered. The London Stock Exchange also responded to the user community and we look forward to developing further proposals from them to help users in 2004. Euronext consulted widely on its first

consolidated tariff and modified its initial proposals in response to user comments. Although Deutsche Börse clearly understood the degree of user dissatisfaction, it has not yet proved possible to reach a definitive agreement on the way forward. Our Committee has made it clear to all the exchanges that our preference is for market solutions and has indicated the alternatives if such solutions cannot be found.

As well as discussing tariffs, we took the opportunity to explore a range of other issues with the exchanges. These included revisions to opening hours, widening the set of products traded and post-trade infrastructure, including LCH.Clearnet.

Our Committee discussed the LCH.Clearnet merger proposals on a number of occasions and received presentations from their senior management. In the event, the proposals were voted through unanimously on a 94% turnout of shareholders. We look forward to working with the new group's management in its ambitious programme of platform consolidation and cost reduction. A notable feature of the proposals was the inclusion of an innovative 'user governance' clause in the constitution of the new company.

LCH.Clearnet

The London Stock Exchange brought forward two important initiatives to help users. The first was the initiative to provide a service to members trading Dutch shares, scheduled to start in the second quarter of 2004. The LIBA community is engaged in making the initiative a reality and the Association stands ready to promote its Members' interests in the new era of competition between trading platforms, to which the initiative is expected to contribute. The second major initiative was the competitive tender process for the clearing of UK equities, which resulted in the reappointment of the incumbent, London Clearing House, at lower fees. While the cash value of the savings is significant, the injection of a degree of competitive tension into this aspect of the post-trade services business may prove to be more significant in the longer term.

In addition to work on these major initiatives, LIBA also developed its relationship with Borsa Italiana and provided an additional channel of communication between participants in the Italian market based in London and the senior management of the Italian exchange, clearing house and central securities depository. Aspects of this work are discussed further under "Settlement developments" below.

Other work

Regulatory Policy

The policy work in which the Committee engaged had domestic and European aspects. The principal UK policy developments were the FSA's proposals for controlling analysts and conflicts of interest (CPs 171 and 205) and the related but separate topic of soft commission and unbundling (CP 176). Recognising the importance of these initiatives, LIBA set up additional high-level groups to steer the Association's work and employed consultants to help develop our response.

On analysts and conflicts of interest, our first and most urgent objective was to achieve a principles-based approach to the issues which would serve to frame an appropriate regulatory response. Both LIBA Members and the other

Analysts and conflicts of interest

associations representing firms active in the London market were particularly concerned that in CP 171 the FSA proposed to impose detailed prescriptive requirements which were ill-suited to the wide range of circumstances to be encountered in the market place, and which came very close in some respects to challenging the basic model of the integrated securities house. This attitude was shared widely throughout the European Union and was subsequently underlined by the analysis and recommendations of the European Commission's Forum Group on Financial Analysts. This report, by an international panel of market professionals including a leading member of our Compliance Committee, and chaired by the consultant Mr Ian Mackintosh, independently put forward strong arguments for a principles-based approach which recognised the variety of markets. With the publication of the report on Analyst Conflicts of Interest by the International Organization of Securities Commissions (IOSCO), and confirmation from the FSA in its CP 205 that its approach would be to require firms to have, publish and abide by a policy for the effective identification and management of conflicts, our objective has been largely achieved. In 2004, the focus will turn to the implementation of the EU Market Abuse Directive in the UK, which will require further changes to legislation, regulation and market practice including consideration of whether it remains appropriate to maintain the FSA's current definition of investment research. (Our work on the Directive so far is summarised in the Corporate Finance section of this Report above).

While the FSA's CP 205 proposed the most welcome shift to a principles-based regime, it also contained the regulator's "made rules" for controlling conflicts which, unless wisely interpreted and enforced, threatened to subvert the fundamental role of the market making process by rigid restrictions on "dealing ahead". With the agreement of the FSA, and working jointly with other associations, we decided that it was necessary to prepare guidance on this topic for Members.

Industry guidance

The guidance – published in February 2004 – addressed both the meaning of the term 'research' and the circumstances in which it continued to be acceptable to deal in investments, knowing that the publication of research material was pending. The other associations involved were the International Securities Market Association (ISMA), IPMA and the British Bankers' Association (BBA), and we continue to consider whether further changes to the rules are necessary. (We comment further on the implications of this work for the FSA's approach to consultation in the Compliance and Banking section of this Report below.)

Soft commission and unbundling

On the questions of soft commission and unbundling, we expect that LIBA will need to do significant further work in 2004. We start from a solid base, building on our work over the last year to convince the FSA to draw back from a prescriptive approach and to allow the market to innovate. Recent moves in the US suggest that further work will be undertaken by the SEC and we will work closely with US colleagues to keep abreast of these developments.

Other issues

The area of the EU Financial Services Action Plan with which our Committee was principally concerned was the Markets in Financial Instruments Directive (MFID) proposal, known until recently as ISD2. This raised important questions

about best execution and market structure, particularly the way in which investors' orders should interact with the public limit order book and the role of those committing capital. Further details are given in the EU and Basel Developments section of this Report below.

In addition, the Committee and its working parties considered aspects of the Transparency Directive (reported under Corporate Finance above).

We took part in several meetings of ABP2L, the liaison committee for trade associations with members who deal on the Euronext markets, one of which we hosted. While the Committee has yet to achieve the formal recognition by the Euronext group which it seeks, it remains a useful forum for the exchange of views about developments.

Settlement developments

The principal topics with which our Settlement Working Party was involved during the year were:

- the introduction of the central counterparty for German equities, which involved a change of dealing convention (i.e. T plus 3) for the London market to the German domestic convention (T plus 2);
- the introduction of a new settlement system in Italy, called Express II, where we campaigned for a revised timetable for the introduction of the new system and helped the market through the "teething troubles";
- ECB-CESR work on regulation of post-trade infrastructure, to which we contributed by underlining the importance of the user perspective;
- the Euroclear development programme, including the 'daylight bridge' between Euroclear and Clearstream Banking Luxembourg, and the Euroclear business model debate.

In 2004, the Settlement Working party has an extensive programme of engagement with the major European clearing houses and settlement systems. Our objectives are to act as a forum to debate users' needs and to help communication between the LIBA community and its suppliers.

European Emissions Trading Scheme

We have also been involved in discussions with the Department for Environment, Food and Rural Affairs about the European Emissions Trading Scheme (EU ETS). The EU ETS has been introduced to assist Member States to achieve their respective greenhouse gas emissions reductions targets, to which they are committed as signatories to the Kyoto Protocol to the United Nations Framework Convention on Climate Change. The EU ETS is due to start operating from January 2005 and will be the world's largest ever market in greenhouse gas emission allowances. The market is unique in that it is solely dependent upon

Need for clear legal framework

intervention through regulation in Europe and European Member States. It is in the spirit of the Greenhouse Gas Emission Allowance Trading Directive that a pan-European trading market is achieved, which establishes a fungible, price transparent product. However, the main issue arising from the proposed scheme is the uncertainty as to how the Directive will be implemented across Member States. The measure requires implementation at national level, and could therefore be subject to differing interpretations by Member State governments. A clear legal framework is required to create a pan-European market, with common approaches to allowance allocation, legal status of allowances, registry infrastructure and banking of allowances. If such a framework is not achieved, it is conceivable that the EU market will become fragmented and regionalised, resulting in decreased liquidity, which will reduce the effectiveness both of trading, and thus of the underlying policy, while gratuitously increasing costs.

COMPLIANCE, BANKING AND UK PRUDENTIAL REGULATION

Overview

Our work has pursued four main themes in 2003. In addition to our intensive work with the regulators on reforming the capital adequacy regime which applies to banks and investment firms – see the EU and Basel Developments section of this Report below – we have had to deal with wide-ranging proposals from the FSA on analysts, conflicts of interest and unbundling of fees: matters which potentially go to the heart of the investment banks' business model. We have also had to explore a number of questions Members have raised about aspects of the FSA's "Project Arrow" approach to supervision – although support for the risk-based approach remains strong. Most recently, we have been responding to the new FSA organisation structure which will take effect on 5th April 2004. Hitherto, policy making for the wholesale markets has sometimes suffered both from the immense and growing breadth of the FSA's responsibilities and from the relentless – at times seemingly unbalanced – preoccupation of the external world with the retail sector. We believe that the changes now planned and the philosophy behind them can do much to offset these problems.

In parallel, we have made submissions to HM Treasury for its review of the legislative framework for financial services regulation two years after "N2" – the N2 plus 2 Review. At the same time we have had to deal with a range of proposals for rule amendments and changes in legislation from the FSA, Whitehall and from further afield, for example, the Sarbanes-Oxley legislation in the United States.

As well as written submissions on particular issues, and follow-up meetings where necessary, our Director-General has maintained his programme of meetings with senior FSA officials.

Research, soft commission and unbundling; enhancing consultation with firms

In the Securities Trading section of this Report above we summarise our work on the FSA's proposals on soft commission and unbundling and on analysts and conflicts of interest.

In the latter case, a major problem and much avoidable extra work arose because the FSA produced "made rules" about managing conflicts of interest in final form without consultation at that stage, despite a special request from us to comment on the new rules as the final draft was prepared. Much of our Members' business is complex, international, or both. So, the regulator's approach to rule-making should – like its generally admirable consultation about other matters – recognise this especial degree of sophistication. Unless an issue is straightforward, or the change in the rules is very urgent, the FSA should always take this final last consultative step where an issue which has been consulted upon is important to firms' business. This should prevent new rules having unexpected and harmful results, whether for particular businesses or the authorities. This is especially important in areas where there are uncertainties about the implications of rule changes such that provision of a detailed cost-benefit analysis has proved to be particularly difficult. There is a general issue here. Given the diversity of the services provided by the international financial services firms in the UK, the risks of difficulties arising from unintended consequences is likely to be greater than is the case for purely domestic business, and the FSA's approach to preparing new rules should reflect this systematically.

*Consultation
procedures*

Service standards and style of supervision issues, including HM Treasury's "N2 plus 2" review

In February 2003 the FSA published a paper – The Firm Risk Assessment Framework – which provided a helpful statement about the general approach to risk-based supervision as well as clarifying the regulator's views on particular issues which LIBA Members had raised. In this context we have continued to pursue issues which Members have brought to our attention. These have included the regulator's approach to the circumstances in which the appointment of skilled persons is thought to be necessary, the FSA's evolving relationship with internal audit, and also firms' continuing concerns about the difficulty in securing guidance, not least about the regulatory treatment of particular transactions. Improving the efficacy of "theme visit" work has been another important topic.

We believe that the discussions we have held with the FSA may have encouraged some of the changes which are now being introduced, including the project to make the Handbook more accessible, which we have welcomed in principle. The FSA has also instigated a review of enforcement procedures – the "end to end" Review. The regulator has said that the intention is to find ways to change the procedures so that final decisions on enforcement cases can be taken more rapidly, but at the same time has stressed that there is no intention to undermine fair hearing safeguards. We are providing Members' comments on

FSA reviews

this initiative and we also arranged a very helpful meeting with the FSA in December in which a number of City trade associations and law firms participated. The general industry view that has emerged in these discussions so far is that the FSA should establish a clear understanding with firms about the ground that it believes should be covered as an investigation is put in hand. This would speed up the process, so that it should not be necessary to consider bypassing any of the current procedures in the closing stages of a case. Members are also concerned that the FSA's approach could blur the distinction between supervision and enforcement work, which could well damage firms' relationship with the regulator.

In addition, we have pointed out that issues raised in the Enforcement Review may be closely related to the Handbook Accessibility project. Reducing the length of the Handbook could involve a move to an approach more heavily based on the FSA's Principles. These are drafted in very general terms, which can provoke serious doubts about the circumstances in which enforcement action could be taken. We have therefore stressed that the FSA should reiterate the important assurances that have been provided by Sir Howard Davies. The assessment of whether firms' and individuals' behaviour should give rise to disciplinary measures must be made on the basis of clear regulatory requirements, and according to the standards that generally prevailed amongst conscientious firms at the time when a rule breach is considered to have occurred.

*Submissions to
HM Treasury*

In June we submitted a paper to HM Treasury on behalf of the majority of members of the Financial Services and Markets Legislation City Liaison Group. (The members of the Group are the Association of British Insurers (ABI), BBA, Futures and Options Association (FOA), Investment Management Association (IMA), IPMA, International Swaps and Derivatives Association (ISDA), Clifford Chance LLP, Freshfields Bruckhaus Deringer and Linklaters, as well as LIBA.) The submission commented on a number of aspects of the FSA's approach to supervision which firms had raised, as well as identifying areas where changes to the legislation are now thought to be needed. (These include technical aspects – such as modifications to parts of the Financial Promotion Order and the provisions dealing with notifications of changes in control of authorised persons which, as currently drafted, give rise to new, burdensome reporting requirements for firms – as well as issues with more general implications, such as the formal legal status of the FSA's guidance and whether the circumstances in which waivers can be granted should be extended.) We also stressed that serious concerns remain about the implications of the Financial Services and Markets Tribunal (FINSMAT) rules, which provide that hearings will generally be held in public. As we feared and warned from the start, their effect often appears to be to discourage firms from contesting the FSA's enforcement decisions.

*Financial
Services and
Markets Tribunal*

On this aspect, we pressed the Council on Tribunals to use the opportunity provided by a review of its Model Rules to clarify that individuals and firms can waive their right to a public hearing unless there is an important public interest consideration that calls for the public to be present. The Council accepted these arguments and we have asked the Treasury and the FSA to consider the implications for the FINSMAT's procedures.

Consultations on the FSA's rules and other proposals for regulatory and legal changes

The FSA published over 50 Consultation Papers and Discussion Papers during 2003. Full details of our work on these have been provided in both the compliance papers that we circulate to Members and the material that we post on LIBA's website periodically. As Members would expect, and as in previous years, we have responded to all consultation papers with implications for the types of business which LIBA covers. We only comment in this part of the Report on some of the issues with which we have had to deal in addition to the matters that are referred to elsewhere (such as our work on the Listing Regime review (CP 203) and Takeover Code issues – see the Corporate Finance section above – and our work on financial crime and prudential standards which is summarised below).

We responded to consultations by HM Treasury and the FSA on implementation of the Distance Marketing Directive in the UK. We expressed concern that the UK's implementation did not provide strong support to the country of origin principle, and gave too broad a scope to the derogations from it, in particular in relation to distance marketing by electronic means, which should be addressed through the provisions of the Electronic Commerce Directive.

Distance Marketing Directive implementation

The FSA pressed ahead with provisions implementing CESR's standards on the regulation of ATs, despite the concerns expressed in response to CP 153, the imminence of the revision of the Investment Services Directive, and the low level of risk which attaches to the ATs currently in operation. However, the FSA introduced some helpful changes to its original proposals. The provisions depend extensively on the FSA imposing conditions on firms' authorisations rather than Handbook rules. We are carefully watching how the FSA puts these provisions into practice.

Regulation of ATs

We established a Working Group to respond to the FSA's Discussion Paper 25: Development of transaction monitoring systems. Members welcome the FSA's proposal to replace its Direct Reporting System (DRS), since it is outdated and is becoming increasingly incompatible with the systems operated by many firms. However, we will be suggesting that the FSA works at this formative stage with the firms that use DRS in deciding what changes should be made to develop a system that will benefit all its users, and at reasonable cost to the suppliers of the basic data.

Development of transaction monitoring systems

We will also stress that the proposed method of funding is inequitable. It requires securities and futures firms alone to bear the increased reporting costs, therefore funding the improved system which will benefit the market as a whole. In addition, we will highlight to the FSA the need to end the duplicative reporting burden placed on firms by the current requirements to provide reports to the FSA and the relevant Recognised Investment Exchanges (RIEs).

Another important question is the timing of the redevelopment of the transaction reporting systems for the wholesale markets, as it would appear that the timetable is being driven by requirements of the retail community.

Finally, since transactions reporting requirements are to be included in the amendments to be made to the Investment Services Directive – see the EU and Basel Developments section of this Report below – we agree with the FSA that future rule changes should not be proposed until the details of the Directive’s implementation are complete. We will also suggest that over the longer term the FSA should work with other regulators and exchanges to establish the degree to which it is possible for firms to report transactions to just one organisation.

Other issues to which we have responded have included the FSA’s proposals for its periodic fees and a range of conduct of business matters.

FSA’s fees On the former, we have continued to press the FSA to amend the fees rules so as to reduce the problem of “double counting” that can arise when the size of some types of business which a firm undertakes is calculated according to the number of approved persons and proprietary traders that it employs. We believe that our analysis of the problem has now been accepted, although proposals to address the issues fully have still to be brought forward.

Conduct of business On the conduct of business front, the FSA has now amended almost all of the rules in the Handbook at N2 which we had argued were inappropriately drafted for broker-dealers’ business; but debate is still continuing on some of the periodic statement requirements. We expect the FSA to agree that the current waiver with consent should be extended.

Other issues Additional issues included the FSA’s proposals to revise the financial promotion rules, in particular as regards the treatment of structured capital-at-risk products and structured deposits (CP 188); the Discussion Paper on the FSA’s approach to implementing the Freedom of Information Act (DP 23), which raised issues which overlapped with concerns that Members had raised about the FSA’s decision to publish “Dear CEO” letters and about the way some of these letters had been presented; and the consultation paper which proposed new rules to prevent insurance to cover the payment of all or part of a financial penalty imposed by the regulator (CP 191). On the last of these, the FSA made some technical modifications to the initial proposals following the consultation, but proceeded to introduce the insurance prohibition in spite of the serious concerns that were raised by many consultees as to whether such provisions were needed.

Data Protection and privacy issues

Data protection During the year we have worked closely with and supported the CBI on the general aspects of the Office of the Information Commissioner (OIC) code of practice on data protection issues in employer-employee relationships. We have also continued to comment specifically on the part of the code dealing with monitoring employees’ communications. We have stressed the importance of not undermining Members’ control systems, the security of customers’ assets, the confidentiality of information, and firms’ ability to comply with regulatory requirements.

In addition, we continued to work jointly with the CBI on a number of other data protection issues. These included submissions on the Department of Constitutional Affairs' consultation about subject access requests and also on important proposals dealing with the way that policies on the handling of data within international groups can satisfy the rule in the 1995 Directive which sets out the circumstances in which personal data can be transferred outside the EU. On the latter, both the European Commission and the Data Protection Commissioners in the Member States appear to have accepted our argument that properly executed compliance policies can provide adequate safeguards, but Members are now concerned that costly and inappropriate procedures may be prescribed. On a more positive note, in its decision in the Durant case in December, the Court of Appeal provided helpful clarification on the kinds of personal information to which the 1998 Data Protection Act applies: this should reduce compliance costs in some areas.

We responded to the DTI's consultation on implementing the Directive in June 2003. Issues we commented upon included territorial application, in particular the need to avoid duplicative requirements for internationally active firms by applying country of origin regulation, and the need to make provision for firms to be able to make access to certain websites subject to well-informed acceptance of "cookies" and similar devices, for security reasons. However, the resulting Regulations provided less support for the country of origin principle than we had hoped. At the end of the year the OIC published guidance to the Regulations. The OIC did not consult on the guidance, as there was insufficient time before the Regulations came into force. However, the guidance broadly supports the interpretation of the Directive and the Regulations that firms had sought, so we are not pursuing the issues further.

*Privacy and
Electronic
Communications
Directive*

Proposals By other bodies

Our work in the year included responses to the Home Office's consultation on a draft Corruption Bill and the Law Commission's consultation on their project on unfair contract terms. (In the former case, we co-ordinated the views of the City Liaison Group.) We also reviewed the proposals for amending the Non-Investment Products (NIPS) Code provisions on undisclosed principal trading.

Financial Crime

As foreshadowed in last year's Annual Report, the regulatory authorities worldwide have stepped up their efforts to combat terrorism and international criminal activities and to tackle money laundering. In the UK this remains an area where the Government, law enforcement agencies and regulators have focused much attention. Particular initiatives with which LIBA had to deal included implementation of the anti-money laundering provisions of the Proceeds of Crime Act and the Money Laundering Regulations 2003. These significantly extend the UK's anti-money laundering regime. So the financial services industry, together with the sectors covered for the first time, have a lot to come to terms with.

Customer identification

In addition, in July the FSA clarified its policy on customer identification where the business relationship in question had been formed before 1 April 1994. Initially, some concern was expressed by money laundering reporting officers that the announcement did not seem to take into account the work already under way in many firms and that perhaps it could give a misleading impression because of the apparent suggestion that client identification might no longer be required. However, the FSA emphasised that it would continue to expect firms to continue to take appropriate, risk-based actions to identify customers and monitor transactions.

FSA consultations

Later in the summer, and following discussions with interested parties including LIBA, the FSA issued Discussion Paper 22 on reducing money laundering risk. This Paper looked at good practice in relation to Know Your Customer and monitoring procedures, aimed at identifying possible money laundering activities, and their benefits to firms. The FSA's feedback statement on the responses to the consultation is expected in the second quarter of 2004.

In December, the FSA issued Discussion Paper 26 on developing policy on fraud and dishonesty. This paper focuses on the extent of fraud and dishonesty in the financial services sector, the regulator's existing work on this front, and options for taking the FSA's work forward. Although not referred to in the paper, these issues have now become so sensitive that policy towards them can affect the corporate governance and ethics issues presently facing firms.

The FSA has also been hard at work promoting the risk-based approach to the anti-money laundering processes. However, it is reported that some supervisors, particularly of retail business, have still not appreciated what this means and continue to assess firms' compliance with all aspects of the JMLSG Guidance Notes regardless of the risk associated with the customers or the products. Concerns about this have been conveyed to the FSA in the hope that the implications for the training of its staff will be taken on board and also to make the point that, unless this happens, firms will be reluctant to adopt a risk-based approach as the consequences of any failure to satisfy the supervisors are just too great.

Other issues

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

- Participation in the reorganisation of the JMLSG, leading to its incorporation in April 2003; and membership of the JMLSG Board and the working groups preparing the new Guidance Notes (LIBA is represented on the Editorial Panel);
- Liaising with HM Treasury directly and through the Money Laundering Advisory Committee on the UK anti-money laundering strategy (an important Government paper is expected in mid-2004);
- Contributing, with fellow trade associations, to the work by the National Criminal Intelligence Service, HM Treasury and the Home Office on various matters (including the implications of proposals for a Third Money Laundering Directive and implementation issues arising from new legislation and from aspects of the Financial Action Task Force's revised Forty Recommendations and Eight Special Recommendations).

We were also involved in the industry-wide production of information leaflets informing customers of the reasons why they need to prove their identity to financial services companies, and we assisted a small group of LIBA Members with the production of an anti-money laundering video designed specifically for training in the investment banking sector.

At a time of great change, the FSA has made it clear that, as with other aspects of firms' internal management structures, controls and procedures, senior management are expected to master what is involved and will be held responsible for any material shortcomings.

Internal Audit

During the past year LIBA's Internal Audit Committee has been concerned with the changing corporate governance scene, both in the UK and internationally, and the implications this has for the work undertaken within internal audit departments. In addition, internal audit is having to consider its responsibilities and work programmes with ever more care, given the regulatory emphasis on risk mitigation, operational risk, management of conflicts of interest and the risk-based approach to supervision.

There has also been continued attention to the regulation of financial crime and money laundering, and the Committee discussed how this has influenced the work that internal audit departments need to undertake. In addition, the Committee has maintained its interest in the developments relating to business continuity and the associated regulatory requirements, and has considered a range of the FSA's papers upon which LIBA's work is summarised elsewhere in this Report. The Committee's work has included reviewing the reports which culminated in the Financial Reporting Council's "Combined Code on Corporate Governance". On the international front, the implications of the Sarbanes-Oxley Act have been considered together with the role of internal audit in achieving compliance with its requirements, and the Committee continued to follow LIBA's work on the Basel Committee's proposals on capital adequacy (see the EU and Basel Developments section of this Report below).

Prudential Developments

The Integrated Prudential Sourcebook (IPSB) will be implemented in stages rather than the "big bang" that the FSA had originally contemplated. We have supported this approach, not least because we advocated an early introduction of the Market Risk modules that had met with considerable industry approval in the 2001 CP 97 consultation.

*Integrated
Prudential
Sourcebook*

In practice, the phased approach is subject to its own particular difficulties. Whilst it should not induce the major systems stresses that an all-in-one introduction of the new regime would have, keeping track of the many threads is not straightforward, and the timing of some elements is not wholly within the FSA's control because of the impact of the Basel/EU capital framework revisions.

We have stressed the importance of greater transparency of what has become a highly complex process, and have asked that this be supported by a more intuitive design of the FSA's website. We are pleased that the FSA has accepted our arguments and is developing its website support.

The first stage of the IPSB will be for the seven Systems and Controls chapters to be implemented. Market Risk will be another early candidate once further dialogue between the FSA and the industry has been undertaken as we have encouraged.

FSA's standing groups

Naturally capital adequacy revisions will form a major aspect of the future IPSB. LIBA responded jointly with the BBA and ISDA to the first of the FSA's consultations on the implementation of the new Basel Accord (CP 189). Firms felt strongly that the proposals in this CP were too detailed and risked "freezing" risk management standards in time, removing incentives for firms to improve processes. The FSA has now established external standing groups on Credit Risk, Operational Risk, Securitisation, Credit Risk Mitigation, Capital and Groups (covering consolidation, composition of capital and Supervisory Review Process). In general terms the purpose of the standing groups is to identify policy issues that the FSA needs to resolve for implementation purposes, and also to act as a sounding board for the drafting of text for the IPSB. We are represented on all these standing groups.

Implications of "copy out"

The FSA intends to use the text of the draft EU Directives as much as possible in the Sourcebook (the "copy out" approach) – see the EU and Basel Developments section of this Report below. While this removes a level of interpretation, it will be of real value only if firms are able to use their own judgement in the practical application of the rules. The FSA envisages the need to provide some additional guidance but now appears to accept that much of the current approach to EU legislation is super-equivalent, and it seems to be acknowledged that this must be avoided in future.

The volume of work entailed in this process is considerable. An additional challenge facing the regulator and industry is the fact that the text upon which the FSA is currently basing its work will be subject to change during the final drafting and negotiations. In other words, the base template is unstable and it is a demanding exercise for the FSA and firms to ensure that the IPSB text adapts to changes at the EU level.

Liquidity

The FSA has sought to develop a quantitative framework to address the liquidity risk firms face. However, the initial proposals – discussed in the external standing group with the industry – generated a number of significant concerns. LIBA jointly with the BBA stressed the anxieties surrounding the inflexibility of the proposals, in particular the failure to allow for a tailored "own approach", the inadequate recognition of group management of liquidity and the insistence that all assets and liabilities had to be disaggregated and could not be treated together for liquidity purposes. Our advocacy successfully persuaded the FSA that their timetable was too ambitious, and the FSA responded very positively, lengthening the process and issuing a Discussion Paper (as opposed to a formal consultation with draft text).

We also welcomed the FSA's willingness to adopt our suggestion that industry working groups should be established to deepen understanding of certain aspects of market practice. Timing for the introduction of the eventual framework has recently been slowed still further, giving increased scope for the fruitful dialogue between industry and the FSA to continue.

Following the 2002/03 consultation (CP 155) on Tier 1 Capital for Banks, the FSA has pursued discussions at international level on the treatment of Tier 1. This has led to the conclusion that instruments in core (non-innovative) Tier 1 must be able to absorb losses on a going concern basis. Furthermore, the FSA has moved away from making a determination purely on economic substance, and now also takes into consideration legal form in order to ensure appropriate protection in case of insolvency. Hence core Tier 1 will comprise ordinary paid-up share capital and retained reserves only. Further amendments to Tier 1 definitions are likely only following Basel or EU reconsideration of these matters. In the meanwhile the FSA states that it is anxious to promote convergence of standards amongst international regulators on Tier 1. The FSA has confirmed that Tier One Notes (TONs) will be classified as Innovative Tier 1 only, although it will grandfather past issues of TONs.

Tier 1 Capital

We are awaiting further consultative proposals from the FSA and have continued to advocate that no further changes be adopted in IPRU(BANK) until Basel, the EU or both have reconsidered the 1998 Basel press release on Tier 1 products. We have further stressed the need for an open and continuing dialogue on a case by case basis between regulator and firm in this highly complex area.

Regulatory Reporting (CP 198)

In December LIBA responded to the FSA CP on Regulatory Reporting with the BBA. The tone of the FSA document was very helpful, but the discussion has remained at such a high level that it is not yet clear if the new regime will be as practical as it needs to be. We welcomed the challenging aim of eliminating duplication of data wherever possible and encouraged the FSA to spend time on site with a range of firms in order to understand better how data supplied to the FSA and other users are generated and collated. It will be important to ensure, as we stressed, that the new reporting regime does not create or exacerbate unmanageable peaks and troughs in work flows. We encouraged the FSA to confer with others, in particular the Bank of England, to eliminate competing resource demands. Other considerations that must be recognised are those of the third party software providers and the human resources needed.

Financial Groups Directive (Financial Conglomerates)

The Financial Groups Directive was adopted in December 2002. The Directive applies from the financial year starting in 2005 and affects not only financial conglomerates, but also banking/investment firm groups. Since 2002, we have concentrated on its implementation.

In October, the FSA and HM Treasury jointly issued CP 204, setting out draft text for implementing the “Conglomerates” Directive. LIBA responded with the BBA identifying key concerns surrounding issues of timetable, dialogue and information flow: timeliness (in identification of the conglomerate and its EU co-ordinator); dialogue with the regulator (there have been some concerns that the FSA supervisory teams are still gearing up for the application of the Directive); the urgency of equivalence being assessed and the need for firms to be informed promptly of likely regulatory action by the FSA in the event of a non-equivalence finding.

Overall we have supported the FSA’s attempts to identify ways of implementing the Directive which will avoid firms being subject to repeated regulatory changes. However, we have pressed for progress in obtaining guidance on the status of equivalence of third country jurisdictions from the EU as this is critical in determining whether the FSA can place reliance on the home state regulator or must consider alternative supervisory measures. We have also urged the FSA to clarify its definitions and intentions in plans for new intra group transaction reporting forms, and have stressed that duplication of effort for groups should be avoided. Further, we have pressed for careful consideration of interactions with current Large Exposure requirements under the directives, and asked that the FSA bear in mind the likelihood of changes under the forthcoming capital adequacy legislation.

EU AND BASEL DEVELOPMENTS INCLUDING IMPLEMENTATION OF DIRECTIVES

Inter-association co-operation

We seek where possible to work jointly with other international, European, and UK associations on European legislation. As the volume and pace of EU single market measures has increased, co-operation has become essential so that workloads can be shared and the industry’s views presented from a consistent standpoint. 2003 saw enhanced co-operation in many fields, with securities associations in other Member States, with the major international capital market associations, and also with securities exchanges, fund managers, and issuers.

Revision of the Investment Services Directive

Following extensive consultation, the European Commission published a formal proposal for a revised Investment Services Directive in November 2002. In many technical respects the proposal benefited substantially from the expert input of LIBA and other commentators. But in certain key areas there were important flaws and uneasy politically-inspired compromises, not all of which seem likely to be resolved satisfactorily.

In co-operation with many other European and international associations, we briefed the Parliament, Council of Ministers, and European Commission intensively in advance of the Parliament’s first reading (completed in September), the Council’s political agreement (October) and the Parliament’s second reading

(in progress at the time of writing). The Council renamed the measure the 'Markets in Financial Instruments Directive' (MFID).

The proposed Directive as amended incorporates several substantial improvements over the current ISD. In particular it provides for a substantial element of mutual recognition of either home country or country of origin regulation, thereby reducing barriers to cross-border business. It also provides for a more systematic regime across Europe of lighter regulation of business with market counterparties and professional customers.

However, the Directive also proposes over-intrusive and detailed regulation of market structure and, in the form proposed by the Council, this would severely curtail the benefit of removing barriers to the single market. It would also harm the international competitiveness of European markets and their ability to respond to market users' diverse needs. The main problem we have sought to remedy is the proposal to impose excessive quoting obligations on firms that provide investors with liquidity by executing transactions away from exchanges. We have also sought improvements to ensure that there are no burdensome restrictions on inter-professional transactions between wholesale counterparties, to avoid duplicative regulation of cross-border services provided by branches, and to make adequate provision for derivatives markets.

Problems with the proposed Directive

Following our promotion in 2002 of authoritative studies of the benefits of diverse, competitive, user-driven markets, which included 'Innovation, Competition, Diversity, Choice', a vindication of diverse and competitive markets, and Ruben Lee's summary of academic research on the effects of competition between trading venues – 'Capital Markets that Benefit Investors' – we and other associations commissioned from OC&C Strategy Consultants a study of the specific effects of the Directive's proposed 'Article 27' quoting obligation. OC&C's study, written by Ian Mackenzie and Andy Sparkes, was the first exercise to quantify the harm that the proposed Directive could do, and the small extent to which 'internalisation' in dealer markets in fact pulls liquidity away from exchanges. We are particularly grateful to OC&C for funding the bulk of this work from its own resources.

In September, after an intensive process of discussion and consultation with interested parties, the European Parliament adopted at first reading many significant improvements to the Commission's proposal. The Parliament reached a compromise between widely divergent views on the 'Article 27' off-exchange quoting obligation which, though far from ideal, represented a significant and broadly workable improvement. Negotiations in the Council were less satisfactory. The common position that was reached in Council in December was pushed through despite the opposition of the UK and four other Member States with diverse and competitive financial sectors catering for the international market, and it included far fewer improvements to the Commission's original text. In particular, the Council's approach to the 'Article 27' quoting obligation favoured the 'concentrated market' model, which currently gives statutory preference to on-exchange execution in certain Member States, and, at the same time, proposed significant restrictions on existing diverse and internationally

The European Parliament contribution

competitive dealer markets in which there is no such statutory preference. In February, the Economic and Monetary Affairs Committee of the European Parliament broadly reinstated its original amendments at the beginning of its second reading. It did so with support from the industry and market users across Europe. At the time of writing it remains uncertain in what form the final Directive will emerge although it seems likely that the Council will only accept some of the Parliament's amendments.

Implementing measures

CESR has now published a call for evidence on provisional mandates published by the European Commission on 'Level 2' implementing measures under the Directive, which provides for the high number of twenty or so such measures. In our joint response with a number of other associations to CESR, we expressed serious concern that the Commission seemed to be seeking measures that would be too detailed and prescriptive (compounding the already high level of detail in the 'Level 1' Directive itself). Such prescription would not only damage the flexibility and competitiveness of European markets, but also, given the large number of measures, place an impractical burden on the consultative process that could only harm the quality of the resulting legislation. We urged CESR and the Commission to focus on priorities and minimise the level of legislative prescription.

Lamfalussy implementation and extension

The European authorities' implementation of the Lamfalussy Report has continued to focus on Level 1 (directives) and Level 2 (implementing legislation). However, CESR and the European Commission have now begun to plan for action respectively at Level 3 (non-legislative co-ordination of national regulators' application of the legislation) and Level 4 (enforcement of Member States' implementation of the legislation).

During the year the 'Inter-Institutional Monitoring Group' (IIMG), established by the Commission, Council, and Parliament to oversee Lamfalussy implementation, has published two reports. We responded to both jointly with a number of other associations. We agreed with the IIMG that so far the operation of the Lamfalussy reforms has yielded important improvements, particularly as regards the transparency of the process and the preparedness of European institutions to consult the industry and other interested parties. However, we also identified a number of further improvements still needed to bring the operation of the new procedures into line with the template set out by the Lamfalussy Committee, and to ensure that the full benefit is secured. In particular, consultation needs to be a more thorough and much less rushed dialogue with experts and other interested parties, and the level of technical detail at Levels 1 and 2 needs to be considerably reduced.

We have continued to co-ordinate dialogue between a group of international wholesale market associations and the European Commission and CESR, aimed at learning from practical experience of the Commission's and CESR's application of the new procedures.

We have also continued to encourage proposals for the extension of the Lamfalussy approach to banking. The necessary committees have been established, though approval of extension by the European Parliament is still awaited at the time of writing. We have stressed that it is essential to introduce more adaptability to the EU framework for preparing prudential measures for banks and investment firms, in particular as regards the technical detail of the forthcoming revision of the capital adequacy regime. We have however also stressed that the improvements we are seeking in the securities markets arrangements must be applied in the regulation of the banking sector too. The extension to banking has been complicated by the European Parliament's concerns about hasty replication of the arrangements for securities markets before necessary improvements have been made, especially in the light of the absence of specific 'callback' powers by which the Parliament could refer draft implementing measures back to the Commission if these were considered to exceed the powers granted by the legislation that the Parliament and Council had adopted. We continue to seek an appropriate balance between democratic accountability and legislative and regulatory flexibility.

Constitutional Convention

We continued to contribute to the debate on the proposed revision of the European Treaty as it affects the securities markets, building on the 'Wicks Report', published by the Corporation of London in November 2002. This sets out a series of principles to guide market-sensitive legislation and regulation of European markets, and we emphasised that they should be incorporated in the European constitution in as authoritative a manner as possible.

Rome Regulation consultation

LIBA responded to the European Commission's 2003 consultation on the conversion of the Rome Convention into a Community instrument and its modernisation. We expressed serious concern that the effectiveness with which the Rome Convention currently operates, and the risks involved in changing its status, are such that the implications of converting it into a Community Regulation would be unpredictable and could not be justified on commercial or legal grounds. In early 2004 the Commission nevertheless signalled a preference to develop a Community instrument. We will continue to work to avoid harmful consequences.

There has also been a proposal for a Rome II Regulation (non-contract law). Although a number of issues have been identified in the proposal, our broad view is that the provisions are largely consistent with English Law.

We continue to monitor developments in both these areas, and to liaise closely with the experts in the Financial Markets Law Committee and City of London Law Society.

European Contract law consultation

We responded to the European Commission's communication on ways to establish a more coherent European contract law. We stressed that the existence of Community law, conflict of law instruments, and agreed standard contract terms for cross-border contracts mean that in wholesale financial services transactions prescriptive measures to address divergences in different countries' contract law would be unnecessary and unhelpful. We stressed that any action the Commission takes should be designed to avoid contributing to divergence, and should take full account of the differences between consumer and professional markets. We urged that any actions proposed must not disturb the existing and well-functioning contractual relations on which financial instruments/dealings are based. Finally, we expressed serious concern that an attempt to impose convergence could be enormously costly and harm the competitiveness of European financial markets.

Basel

The Basel Committee has maintained forceful pressure to achieve its objective of agreeing the revised Accord by mid 2004. To this end it released its third Consultative Paper in May (CP3) and a highly significant press release in November when it identified the need to address the treatment of Expected/Unexpected losses (EL/UL) as well as outstanding issues in the field of securitisation and credit risk mitigation. These were issues that we were pursuing and the Committee's recognition of our case was very welcome.

LIBA priorities

LIBA collaborated with the BBA in our response to CP3 and in commentary on the EL/UL proposals. In substance we found CP3 very little changed from the text released with the third Quantitative Impact Study some months earlier. Our core priorities and concerns remained, namely the urgent need to address outstanding Trading Book issues; cross-border implementation; cost and complexity of implementation and the risk of rigid prescription; sensitive transitional arrangements; and recognition of the need for an additional calibration exercise in due course that would examine effects not yet properly taken into consideration. Furthermore, we advocated the use of systematic, co-ordinated supervisory disclosure as an aid to enhanced consistency and convergence of practice in implementation. Finally, we stressed the significance of the Supervisory Review Process, where we had always supported the original Basel concept of Pillar 2 but were anxious to avoid a blurring of Pillar 1 and 2 and any introduction of prescriptive mechanistic elements.

Trading Book issues

The Basel Committee's mid 2004 target is ambitious, but a highly significant development in January was the Committee's public declaration of commitment to review the outstanding Trading Book issues. This announcement represented an acknowledgement of continued pressure from LIBA and others that these issues are critical and need to be dealt with in a structured form, and followed our meetings with both the Chairman of the Basel Committee and the Chairman of the Accord Implementation Group. We also understand that the UK argued forcefully for this decision, citing the FSA's LIBA meeting with a number of the

major investment firms as confirming the importance of the issue and the need for action. A Basel Group under the Chairmanship of Mr Oliver Page (FSA) has been established to focus on the work, and the Group will co-operate with a group set up by IOSCO, chaired by Mr Mike Macchiaroli (SEC), which had also raised the issues to Basel. This represents a considerable step forward in the international process and we hope it will ensure that Trading Book issues can be appropriately addressed, building on expertise sourced from Basel and also the global investment firm community. Most recently, the FSA has indicated to LIBA that if work on Trading Book issues progresses efficiently it may be possible to agree new proposals to be implemented at the same time as the revised Accord. The Basel press release of 15 January does not specifically endorse this view, but we understand that work may begin quickly and that no formal decisions on implementation have yet been taken.

We have welcomed the support and increasing involvement of HM Treasury officials prior to the proposal for the new capital directive being put forward into the EU legislative process. The dialogue has been extremely constructive and the Treasury has demonstrated a willingness to understand the industry perspective that we have strongly appreciated. The Treasury's interest extended to launching its own consultation on the revised capital framework to assess where UK interests will be affected and thus inform its negotiating position in Europe. LIBA responded jointly to this initiative with the BBA.

EU work on capital

2003 opened with a hearing for investment firms at the European Commission in January which LIBA attended. The Commission stressed that it was in listening mode, but the need for parallelism with Basel was also emphasised to the extent that it is clear that in the Commission's view scope for deviation from the Basel model will be extremely limited. In particular, the Commission continues to press very strongly for full application of the Accord to all EU firms authorised as credit institutions or investment firms. We have not argued for "carve out" treatment for investment firms, but instead assert that the deficiencies of the Trading Book treatments should be addressed with urgency. The Commission has been increasingly responsive to this dialogue, which has deepened fruitfully through the course of the year, and has led the Commission to be strong advocates of Trading Book issues in the Basel dialogue.

The Commission released its third consultation document in July. LIBA responded jointly with ISDA, highlighting issues around Trading Book treatments, credit risk mitigation, large exposures, operational risk, consolidation and the Supervisory Review Process.

Assuming that Basel meets its proposed timetable, the Commission plans to adopt the legislative proposals for revised capital adequacy before mid 2004, thus setting itself a demanding timetable. An important initiative that will be critical to the ultimate effective implementation and future adaptation of the capital framework has been the proposal that the Lamfalussy-style structure of committees now be established in the banking sector (as noted in the section

Brussels timetable

above on Lamfalussy implementation and extension). The intention is that the new arrangements should enhance the political focus of the Member States on the proposals, as well as ensuring that technical support for the Commission in preparing the draft texts is more widely based, and thus a more fluid and efficient updating process for the capital framework can be achieved. LIBA strongly supports this initiative – as we did the establishment of CESR – providing that full consultation, transparency and accountability can be assured.

Supervisory Review (Pillar 2)

Another area of major importance is our work on Pillar 2 (Supervisory Review Process). This is being taken forward with ISDA and the BBA and has focused mainly on the EU and UK dimensions. Discussions in the industry have revealed a strong antipathy to the possibility that Pillar 2 might become, particularly in the UK, a system of mandatory capital add-on charges. In 2002, LIBA and the BBA responded forcefully to the FSA's proposals for setting individual capital adequacy standards (CP 136). We were gravely concerned with the over-detailed and potentially highly prescriptive approach envisaged by the FSA, which seemed to favour additional capital allocation over progress in risk management standards.

Our thinking on Pillar 2 emphasises that it is the task of management to assess and understand the risk profile of the institution and respond appropriately, while acknowledging both the need for the supervisor to have comfort that this process is adequately conducted and the ability of the supervisor to intervene if necessary. Encouragingly the tone of our discussions at international level (Basel Accord Implementation Group, EU Groupe de Contact) and at home with the FSA indicated that there was growing support for our views. Recent discussions with the FSA suggest that much more of our thinking is now supported by the regulator. Necessarily we will have to wait for the final outcome of the Directive negotiations and to see the effect of convergence processes on EU supervisory habits.

ACCOUNTING

The move to International Accounting Standards

The dominant feature of the past year for our Accounting Committee has again been the move towards International Accounting Standards (IAS) in Europe. There has been a very high level of activity, both in the improvement of existing standards, and in the development of new standards (known as International Financial Reporting Standards or IFRS) in the run-up to January 2005 – the date from which the new EU Regulation will, with minor transitional exemptions, require every EU-listed company to prepare its consolidated financial statements under IAS/IFRS.

The International Accounting Standards Board (IASB) has made considerable progress with its major programme of improvements and amendments, both addressing the gaps in existing IAS and improving the standards in areas where they were generally recognised to be less than ideal. Since May 2002 the IASB has produced revised versions of fifteen existing IAS, as well as five new IFRS covering such topics as the transition to IAS/IFRS, share-based payments,

business combinations, and insurance contracts. We have made substantial contributions to this consultation process and to the corresponding consultations on a series of closely related proposals issued by the UK Accounting Standards Board (ASB).

The most significant proposed changes for the financial sector are undoubtedly the revised standards for financial instruments: IAS 32 (on disclosure and presentation) and IAS 39 (on recognition and measurement). Here the IASB has run into considerable opposition. The strongest criticism has come from the commercial banks, notably in France, many of whom see such problems with the proposed new IAS 39 – particularly the likelihood of much greater volatility in their reported results – that they would prefer the EU not to adopt the new standards for use under the Regulation. The IASB is considering further changes to the revised standards, largely in response to the concerns being raised.

*Revised
Standards for
financial
instruments*

We have been closely involved with this debate, initially by commenting in detail on the Exposure Drafts, and subsequently through representations to, inter alia, the IASB, the European Commission, the European Financial Reporting Advisory Group (EFRAG), the ASB and the DTI. We have argued strongly that IAS 32 and 39 should be adopted: although we remain critical of a number of aspects of the proposed standards, we believe that a failure to adopt them could cause serious damage, both short and long term, to the EU capital markets. A set of accounting standards which lacks clear guidance on accounting for derivatives and other financial instruments cannot, in our view, be said to be comprehensive, and would therefore lack credibility.

In parallel with the IASB work, CESR has consulted on a range of issues arising from the implementation of the IAS Regulation across the EU; the DTI has consulted on the corresponding UK issues, as well as similar issues arising from the implementation of the Fair Value and other related Directives; and the ASB has consulted on consequential changes to UK GAAP. We have provided significant responses to almost all of these consultations.

*CESR work
and UK
consultations*

Finally, we have established an informal IAS Implementation Working Party to consider some of the key practical issues that the move to IAS will bring to LIBA's Members, including detailed analysis of the accounting standards themselves.

Other Accounting Developments

Both EFRAG and the IASB have undertaken public consultations on reviews of their constitutions and working processes to which we have contributed. We have also maintained a largely watching brief on a number of other developments in accounting and reporting, most importantly the proposed EU Prospectus and Transparency Directives – which are covered in the Corporate Finance section of this Report above – and the implications for Members of the US Sarbanes-Oxley Act and related corporate governance issues.

TAXATION

EU “Savings Tax” Directive

As noted in last year’s Report, the revised proposals for an EU “Savings Tax” Directive, based very largely on the agreement at the Feira summit in June 2000, were finally agreed by Finance Ministers at their meeting in March 2003. The Directive will require information on the savings income of non-residents to be reported, subject to certain conditions, to the individual’s home state fiscal authority. Austria, Belgium and Luxembourg have opted for a withholding tax instead - initially at 15%, rising to 20% after three years and to 35% after seven. Subject to the signing of agreements already agreed in principle between the EU countries and “third countries” – including Switzerland, Liechtenstein and Monaco – under which they will impose withholding taxes at the same rates on EU taxpayers, and similar agreements with the Crown Dependencies (Channel Islands and Isle of Man) and the UK and Dutch Caribbean Dependencies, the Directive will come into force in January 2005.

Work of the City Group

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

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

Directive implementation issues

Over the past year the City Group’s principal focus has been on working closely with the Inland Revenue to develop the least burdensome way of translating the Directive into UK law, an exercise in which we believe we have had considerable success. We have also continued to monitor the negotiations between the EU and

the “third counties”, and between the UK and its dependent territories, on drawing up the necessary agreements to permit the Directive to be implemented on schedule in January 2005. At the time of writing there appears to be a reasonable prospect that this will be achieved.

Recent and pending changes in UK tax legislation

After two years where tax legislation brought a number of positive changes, there was little in the Finance Act 2003 (other than confirmation of the new regime for the taxation of bank branches, on which we reported last year) which impacted significantly on our Members. The December 2003 Pre-Budget Report (PBR) and related publications, however, contained several proposals of direct relevance including, in particular, reforms to the rules on transfer pricing and thin capitalisation to bring the UK into line with recent European Court of Justice judgements, and proposals to modify the taxation of property and equity derivatives. While we believe neither set of changes to be inherently unreasonable, we have made representations to the Inland Revenue asking for a number of modifications.

The PBR also provided formal confirmation that IAS will be acceptable as a basis for tax returns once the new EU Regulation comes into force (see the Accounting section of this Report above). We were pleased that the Inland Revenue recognised that translating this principle into a sensible tax system would not be straightforward and that they have established a constructive consultation process, in which we are participating, to explore the issues with the relevant taxpayers.

Following LIBA representations over several years, the Inland Revenue agreed to work with us to develop a less burdensome regime for the tax treatment of manufactured overseas dividends (MODs), and a series of productive meetings resulted in significantly improved Regulations which came into force in August. We are working with the Inland Revenue to try to improve the associated guidance notes and hope this will be achieved before too long.

The treatment of MODs

The Government’s review of “the residence and domicile rules as they affect the tax liabilities of individuals”, which was originally announced in the 2002 Budget Statement, is progressing extremely slowly and any specific proposals appear still to be some way away. The concurrent Government review of the taxation of pensions, which was originally announced in December 2002, is moving rather more rapidly, although the substantial issues which it raises are perhaps less specific to LIBA Members. We will continue to monitor both topics very closely.

Residence and domicile

Pensions

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. They thus create, amongst other problems, a major disincentive for the largest multinational corporations to remain registered in the UK. We believe that market pressures and competition will increasingly erode the revenue from these

Stamp Duty

taxes, and that attempting to preserve them risks irreversible damage to the UK securities industry. We were able to restate these points at an informal high-level meeting with the Inland Revenue in early 2004, and we hope that subsequent discussion will lead to the Treasury and Inland Revenue gaining a better understanding of how the markets work, and in due course to a more sympathetic hearing for the case for eventual abolition of these taxes.

Other tax issues

The OECD has continued to work on its major review of the taxation of bank permanent establishments, with the focus now moving to issues associated with global trading – an area which is of particular importance to LIBA Members. We commented in some detail on a comprehensive Discussion Draft produced by the OECD during the year, and will continue to play a significant part in their discussions on this topic.

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.

VAT

Our series of bilateral meetings with senior officials of HM Customs and Excise continued during the year. These discussions play a key part in sustaining the generally open and constructive relations between LIBA Members and Customs, which have noticeably improved in recent years.

We successfully persuaded Customs that the FSA Listing fees should not be subject to VAT. We also made substantive representations on a range of technical issues including: the VAT implications of the FSA's CP 176 on unbundling, the appropriate VAT treatment for the UK end of the new market for emissions trading, possible changes to the VAT treatment of pension fund management, possible changes to UK law following a series of ECJ cases on outsourcing, the VAT treatment of temporary staff under the new DTI employment agency regulations, and the adverse consequences of the very restrictive Insurance Premium Tax exemption for offshore credit insurance.

PERSONNEL

The Personnel Committee's work, in addition to keeping abreast of developments in personnel practice in the investment banking community, covers a wide range of subjects relating to employment law and practice as well as the FSA's training and competence and approved persons regimes.

During the last year our Committee has been concerned with the implementation of the changes introduced by the Employment Act 2002 and the various Codes issued by the OIC (the latter are also covered in the Compliance and Banking section of this Report above). On the training front, the FSA passed responsibility for the review of the current examination system across to the Government-sponsored Skills Council for Financial Services. LIBA's Committee arranged for Members to meet with representatives of the Skills Council to hear first-hand what work was being undertaken and what the future might hold for standards and the examination system. The Skills Council will be setting the standards for future examinations and competency, and will work with the industry to achieve this: LIBA will take part as appropriate. The retail sector is the first to be subject to the review process and our Committee will be following developments.

Training issues

The Committee has also looked at the processes of "Alternative Dispute Resolution", a procedure that the authorities are promoting across all industries as a more efficient and cost effective way of settling disputes. The Committee met with the City Disputes Panel – a non-profit organisation that provides ADR solutions – to discuss the issues more fully and will monitor developments.

ADMINISTRATION, CONTINGENCY PLANNING AND BUSINESS CONTINUITY

The Administration Committee provides a forum for discussion of administration and facilities management operations topics. During the year it has focused on a range of subjects including relocation issues, building maintenance and security, catering facilities, centralising administrative services, document handling and production and environmental matters.

Consultation on the need for new legislation

The Committee has led LIBA's work on business continuity matters. HM Treasury issued a consultation paper on "The financial system and major operational disruption" in February 2003 asking whether new legislation should grant powers to the Government to assist it in promoting order in the UK financial system in the event of major operational disruption. We were among the first to respond to this consultation, and pointed out that more research was needed into the law and market practice before a considered view could be reached while at the same time drawing on the US experience that demonstrated that a market-based approach would be preferable to new legislation. Other responses supported this position and the Government appointed a Task Force, chaired by Sir Andrew Large, to consider these issues. In addition, the Financial Markets Law Committee was invited by HM Treasury to review the issues in the consultation paper. The work of the Committee formed the bedrock on which the Sir Andrew Large Task Force produced its report in December 2003. We were represented on both the Task Force and the FMLC working groups.

The work of the two bodies supported the industry's initial opinion that a market-based approach should be the preferred route and that no new legislation was necessary. The Task Force report also made eight recommendations and set a timetable for completion of each. Importantly, it also has made the Tripartite Standing Committee (comprising HM Treasury, the Bank of England and the FSA) responsible for preparing regular update reports on the progress being made as regards implementing the recommendations and annual reports thereafter. LIBA will be monitoring progress closely.

*Work of the
SIBCMG and
other bodies*

We have been an enthusiastic supporter of the Securities Industry Business Continuity Management Group (SIBCMG) since its creation in November 2001. SIBCMG is a special interest group for the investment banking sector of the financial services industry. It focuses on business continuity, disaster recovery and crisis management practices. SIBCMG has organised simulated exercises in relation to business continuity and disaster recovery, which have included the support and participation of the Tripartite authorities. SIBCMG is also involved in the financial services sector discussions on how to enhance communications within the sector in response to a major operations disruption, and assisted in the enhancement of the Tripartite Standing Committee's website (www.financialsectorcontinuity.gov.uk).

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

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

LIBA'S WEBSITE

As noted in last year's Annual Report, we have been looking at ways of improving the navigation around the Association's website and making LIBA's material more generally accessible. This work has taken longer than anticipated but is nearing completion. We shall be reorganising the site so that our submissions will be available on the public area, making access easier for all, including Members. The "Members only" area will carry our regular Committee Reports paper, summary Committee agendas and minutes, and documents of specific relevance to Members. These enhancements will come with improved subject indexing and electronic navigability.

COMMITTEES OF THE ASSOCIATION

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

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

COMMITTEES

The members of the Functional Committees as at 31st March 2004 were as follows:

Corporate Finance

S. Dingemans (<i>Chairman</i>)	– Goldman Sachs International
Mrs P. Adomakoh	– N.M. Rothschild & Sons Limited
E. Banks	– JP Morgan plc
J. Crookenden	– Credit Suisse First Boston (Europe) Limited
A. Defriez	– UBS Investment Bank
P. Drayton	– Citigroup Global Markets Limited
C. Foreman	– Deutsche Bank AG London
P. Geradine	– HSBC Bank plc
J. Grace	– Investec Investment Banking
P. Jameson	– Lazard
Ms I. Macpherson	– Dresdner Kleinwort Wasserstein
C. Smith	– Cazenove & Co. Ltd
K.J. Smith	– Merrill Lynch International
M. Warham	– Morgan Stanley & Co. Limited

Securities Trading

A.C.D. Yarrow (<i>Chairman</i>)	– Dresdner Kleinwort Wasserstein
A. Carruthers	– Cazenove & Co. Ltd
M.P. Davids	– Merrill Lynch International
J.R. Davie	– Credit Suisse First Boston (Europe) Limited
D. Koffler	– Instinet Europe Limited
R. Kyle	– Citigroup
R. Lenterman	– Goldman Sachs International
P. Reeves	– Deutsche Bank AG London
X. Rolet	– Lehman Brothers
D. Russell	– Morgan Stanley International
J. White	– HSBC Bank plc

Compliance

R.J. Levy (<i>Chairman</i>)	– Goldman Sachs International
M. Bailham	– Morgan Stanley International Ltd
D. Cooper	– HSBC Bank plc
Ms S. Docx	– WestLB AG
N.S. Gibson	– ABN AMRO Bank N.V.
A. Giles	– Deutsche Bank AG
D. Gordon	– Nomura International plc
M. Hart	– BNP Paribas
B.A. Harte	– Barclays Bank PLC
G. Lewis	– CIBC World Markets PLC
Ms T. Phillips	– UBS Investment Bank
G. Russell	– Credit Suisse First Boston

Banking

H. Angest (<i>Chairman</i>)	– Secure Trust Banking Group PLC
M.R. Aish	– NM Rothschild & Sons Limited
C.B. Price	– Singer & Friedlander Limited

Finance

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

SPECIALIST COMMITTEES

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

MEMBERS OF THE ASSOCIATION AT
31st MARCH 2004

ABN AMRO Bank	Greenhill & Co. International LLP
Arbuthnot Latham & Co., Limited	Hawkpoint Partners Limited
Arbuthnot Securities Limited	HBOS Treasury Services plc
BNP Paribas	HSBC Bank plc
Barclays Capital	Instinet Europe Ltd
Bear, Stearns International Limited	Investec plc
Bridgewell Group Limited	J.P. Morgan Securities Ltd
Cazenove & Co. Ltd	KBC Peel Hunt Ltd
CIBC World Markets	Lazard & Co., Limited
Citigroup Inc.	Lehman Brothers
Close Brothers Corporate Finance Ltd	Merrill Lynch Europe PLC
Collins Stewart Limited	Mizuho International plc
Commerzbank AG	Morgan Stanley International Ltd
Credit Suisse First Boston (Europe) Ltd	Nomura International plc
Daiwa Securities SMBC Europe Limited	N M Rothschild & Sons Limited
Dawnay, Day & Co., Limited	Robert W. Baird Group Limited
Deutsche Bank AG London	Singer & Friedlander Limited
Dresdner Kleinwort Wasserstein	3i Group plc
Evolution Beeson Gregory Limited	UBS AG London
Fortis GSLA Arbitrage Limited	WestLB AG
Goldman Sachs International	

