

UK Conservative Party proposes the abolition of the FSA

On 20 July, the opposition Conservative Party, which is currently viewed as likely to win the next UK election (which must be held by next June), and so likely to form the next government, published its proposals to reform the structure of UK financial regulation.

The most striking proposal is that Conservatives will abolish the Financial Services Authority (the "FSA") and the current tripartite structure under which regulatory responsibilities are divided between the Treasury, the Bank of England and the FSA. At the same time, they will increase the powers of the Bank of England. The Bank will be responsible for macro-prudential regulation - *i.e.*, monitoring and controlling risks to the financial system as a whole. The regulation of all banks, building societies and other significant institutions, including insurance companies, will also be transferred to the Bank. Many of the remaining functions presently exercised by the FSA will be transferred to a new Consumer Protection Agency.

The reasoning behind these proposals is that the Conservatives view the FSA as having failed to identify or prevent the problems in the UK banking system. They also consider that there was a failure in the coordination between the tripartite authorities, and that there was a lack of effective procedures to deal with failing banks.

The Conservatives therefore propose that any institution whose regulation requires prudential judgment will be regulated by the Bank of England. Those small firms such as insurance and mortgage brokers, stockbrokers and small asset managers whose regulation is not mainly concerned with prudential judgment, but primarily concerned with protecting consumers, will be overseen by the new Consumer Protection Agency.

The Conservatives have said that they will consult on which regulatory authority should take on the FSA's various other responsibilities, including markets and securities regulation, the registration of individuals and the FSA's listing authority responsibilities.

The reaction to the proposals has been mixed. Whilst many have welcomed the idea of transferring banking regulation back to the Bank of England, others have pointed out the disruption that these proposals are likely to bring to the industry. There is also concern that the FSA will become a lame duck regulator if it is widely viewed as being likely to be abolished.

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