

# Promoting efficient, orderly and fair markets

## Introduction

Our work to promote efficient, orderly and fair markets affects both retail and wholesale firms. Our preference is for working with the industry to find solutions to market failures and to intervene only where the benefits of doing so are likely to outweigh the costs. During the last year this approach has led to success in two key areas – reducing confirmation backlogs in credit derivatives and achieving contract certainty in the general insurance market.

Alongside our work with the industry to raise standards we have taken a robust approach to those who fail to meet our requirements. In particular, we have taken action against firms and individuals for breaches of our market conduct rules. To improve our effectiveness in preventing and detecting market abuse we have also made considerable investment in the development of our new transaction monitoring system, Sabre 2.

We have also continued our work to influence the European and international agendas. We have spent a significant amount of time finalising our rules for the Markets in Financial Instruments Directive (MiFID) and preparing to implement the Capital Requirements Directive (CRD).

## Improving supervision

### Firms

Following a period of significant growth in the trading of credit derivatives, in 2005 we identified large **trade confirmation backlogs** in firms. We worked closely with firms and with international regulators, including the Federal Reserve Bank of New York and the Securities and Exchanges Commission (SEC), to set targets and monitor progress in reducing trade confirmation backlogs. The industry has made significant progress. The number of credit derivative trade confirmations outstanding for more than 30 days had fallen by 90% as at 31 March 2007. In November 2006 we broadened this initiative to address growing trade confirmation backlogs in equity derivatives and interest rate swaps. We asked firms to reduce by 25% the number of equity derivative

trade confirmations outstanding for more than 30 days; all firms had achieved this target by January 2007. Eliminating such backlogs reduces legal uncertainty and operational risks and supports market stability.

In December 2004 we asked the general insurance industry to find a solution to **contract certainty** in the UK by the end of 2006 or face regulatory intervention. In January 2007 we reported that the market had, at an aggregate level, delivered a solution; 90% of contracts in the subscription market and 88% in the non-subscription market were achieving contract certainty. This is a major achievement by the UK insurance industry and has resulted in a more efficient market for buyers, brokers and insurers, and brought competitive benefits to the UK.

Since introducing our **risk-based capital adequacy** regime for insurers at the start of 2005, we have reviewed all the largest firms' Individual Capital Assessments (ICAs) and are on course to complete the review of the ICAs of all other insurers by mid-2007. Our new regime has led to significant improvements in risk management and to the understanding of risk and capital issues by boards and senior management.

In February 2007 the Association of British Insurers (ABI), in partnership with other trade associations, published a guide to the ICA process for insurers. We worked closely with the trade associations to develop this guidance, which provides commentary and examples of how firms may achieve our objectives for ICAs.

In November 2006 we fined General Reinsurance UK Ltd (General Re) £1.225 million for breaching our *Principles for Businesses*. General Re had arranged two improper **reinsurance transactions**: the first enabled a German insurer to gain tax benefits by transferring money between Germany and Ireland; the second was used to compensate for premium reduction on a reinsurance programme agreed with a client insured by General Re. Conventional and finite reinsurance transactions should be used only where there is a legitimate commercial purpose and significant risk transfer.

Following concerns about the handling of **client money** by retail and wholesale general insurance intermediaries, in May 2006 we published a client money guide and in November 2006 we launched a web-based training course for firms. Results from our visits to 161 general insurance intermediaries show that these tools have helped them to understand client money handling. However, it was clear that some firms used the help available only once they were aware of our

planned visit. We remain concerned about the standards of compliance in this area and will continue to take action against firms and individuals who do not handle client money properly.

Our **supervision of hedge fund managers** has focused on the two main areas of risk we identified in our March 2006 Feedback Statement: the disclosure to investors of side letters with material terms; and the valuation of illiquid assets.

In 2006 we cancelled the permission of two firms to carry on regulated activities after they **failed to pass on client premiums to insurers**. Walsall Bridge Insurance Consultants Limited and ICM Group Limited left clients potentially uninsured and used money received as client premiums to run their businesses. We also prohibited the Director of Walsall Bridge, Geoffrey Robbins, and the two Directors of ICM Group, Ian Ruff and Jon Batchelor, from conducting any further regulated activity after finding them not fit and proper.

In August 2006 we fined Merrill Lynch International £150,000 for **failing to report accurately** the capacity in which it executed transactions in non-UK European equities. The estimated number of trades inaccurately reported was 1.2 million over a nine-year period. Accurate transaction reports are critical to our ability to maintain confidence in the financial markets and reduce financial crime.

In July 2006 we successfully defended an application by OJSC NK Yukos (Yukos) for leave to judicially review our decision to admit Rosneft's Global Depositary Receipts to the Official List. Yukos had sought to argue that our decision to admit Rosneft's securities to listing would be detrimental to investors under section 75(5) of the Financial Services and Markets Act 2000 (FSMA). Following a two-day hearing, Mr Justice Clark decided that we had correctly applied the legal doctrine of Act of State, and had not erred in law in admitting Rosneft's securities to listing.

We identified a practice among some hedge fund managers of granting material preferential terms to some investors which may be to the detriment of other investors. We worked with the Alternative Investment Management Association (AIMA) to seek an industry-led solution, and in October 2006 AIMA published guidance for the industry on defining and disclosing the existence of material terms. We completed thematic work on the difficulty of valuing positions in illiquid assets and markets, or in circumstances where no independent, objectively verifiable, screen prices are available. Valuation errors can lead to investor detriment and, in extreme cases, fraud can result from deliberately misleading valuations. We chaired an International Organisation of Securities Commissions (IOSCO) subcommittee which developed and recently published a set of principles for sound valuation policies and pricing procedures. These principles are intended to set global standards.

## Markets

**Competition and consolidation** among market infrastructure providers has continued in the last year. The industry has become increasingly internationalised and we have increased our cooperation with overseas regulators.

During the takeover bid by Nasdaq for the **London Stock Exchange**, we worked with all interested parties, including the SEC, to consider the potential regulatory implications of the deal. In addition, following the announcement that **Euronext NV** and the **NYSE Group Inc** were to merge, we worked as part of the College of Euronext Regulators and with the SEC to assess collectively the regulatory risks of the combination and to ensure a satisfactory outcome.

Separately we agreed Memoranda of Understanding with the Commodity Futures Trading Commission (CFTC) and the SEC to help with our transatlantic cooperation. In September 2006 we helped the CFTC with its review into its **no-action regime for Foreign Boards of Trade** accessing the US (such as Euronext.Liffe and ICE Futures in the UK). The CFTC decided not to make any material changes to its no-action process.

We have seen a rise in the number of **new entrants into the UK market providing market infrastructure**. This includes a number of Multilateral Trading Facilities and we expect MiFID to lead to further competition and fragmentation of trading between venues and market participants. We are considering the implications for the structure of the market and for our supervision. In January 2007 we granted the German clearing house Eurex Clearing AG Recognised Overseas Clearing House status (ROCH). There are now two ROCHs doing business in the UK.

In response to concerns that exchanges or clearing houses might seek to impose disproportionate requirements on users of markets, in particular as a result of a takeover of a UK recognised body by an overseas entity, Parliament legislated to enable us to veto such requirements. We assisted the Treasury in considering the issues

In June 2006, together with the Bank of England, we assessed the **clearing and settlement procedures** of CRESTCo and LCH.Clearnet against Committee on Payment and Settlement Systems/IOSCO international standards. Both demonstrated strong compliance with these standards at the time of the assessment.

and in developing the Bill which became the **Investment Exchanges and Clearing Houses Act**.

## Strengthening markets

### Market abuse

Our priority in the last year has been to **focus on high-impact cases** of market abuse. Despite the

inherent difficulties in bringing market misconduct cases, we have taken enforcement action against several firms and individuals for breaches of our market conduct rules and of our principles for firms and individuals. This sends a clear message to the market about what standards must be achieved to maintain clean financial markets.

In August 2006 we fined hedge fund manager GLG Partners LP (GLG) and Philippe Jabre, a former managing director of GLG, £750,000 each for market abuse. Mr Jabre **traded on the basis of confidential information** during a period where he had agreed to be restricted from dealing. This is the largest fine we have imposed on an individual, and because of Mr Jabre's position at GLG, the firm was held accountable for his actions and was also found to have committed market abuse. Mr Jabre referred the matter to the Financial Services and Markets Tribunal. In a preliminary issues hearing, the Tribunal ruled that it could impose a different or greater sanction than proposed by our Regulatory Decisions Committee. The Tribunal also ruled that someone in possession of relevant information on a UK traded stock cannot circumvent the UK market abuse regime by trading in that stock on an overseas market. Mr Jabre subsequently withdrew his reference to the Tribunal.

In November 2006 we fined Sean Pignatelli £20,000 for failing to exercise due skill, care and diligence and to observe proper standards of market conduct when carrying out his function as an approved person. Mr Pignatelli **failed to consider whether he had received inside information** before he embarked on a series of calls during which he passed on that information. Furthermore, the way in which he passed on the information gave the impression, albeit unintentionally, that he was passing on inside information. This case demonstrates the importance we attach to market participants giving due care and attention to the information they disseminate to the market.

In October 2006 we fined James Parker £250,000 for market abuse. Mr Parker, a senior accountant employed by a listed company, **engaged in market abuse by placing spread bets on share price movements of his employer** while in possession of relevant financial information by reason of his employment. Mr Parker made an abusive profit of £121,742. The Tribunal imposed a higher punitive element in the fine than we had proposed.

In February 2007 we obtained an injunction against two individuals to restrain the proceeds of suspected market abuse. It appears that one of the individuals was an **insider to an impending takeover announcement** and may have passed information to another individual who traded on the basis of that information. The individuals concerned made a profit of £50,000. This is the first time we have obtained an asset freezing injunction under FSMA for the proceeds of suspected market abuse. Our investigation continues.

We have increased our **focus on anti-market abuse systems and controls**. Our supervisory risk assessments have reviewed controls and, where relevant, highlighted areas for improvement. We have set out what we expect of firms' senior management and have completed a range of thematic work to review practices and raise standards, providing feedback to the industry through our MarketWatch newsletters. This has included reviews of the credit markets, the controls over information during public takeovers and suspicious transaction reporting.

In March 2007 we published an updated measure of UK **market cleanliness**. We measured this by looking at the extent to which share prices move ahead of the regulatory announcements that companies make to the market. We welcomed the improving trend in market cleanliness; however, the figures for takeover announcements remain a cause for concern. We have launched a major project to review the controls over price-sensitive information in relation to takeovers.

Finally, we have continued our programme to enhance our **transaction monitoring system**, Sabre 2. Following a comprehensive procurement exercise we signed a contract with an external supplier to develop a new system, and work is now progressing on designing and building it. The new system will significantly enhance our capability

to detect market abuse as well as enabling us to comply with our obligations under MiFID to exchange transaction reports with our Committee of European Securities Regulators (CESR) colleagues.

### Financial stability

We have worked closely within the framework of the Tripartite Authorities – the FSA, the Bank of England and the Treasury – to develop **Factbooks**, which provide key information on major firms needed in the event of a financial crisis. They are designed to minimise the burden on firms by using data which firms might use for their own internal management purposes. In January 2007 we launched a system to capture this data, which firms are providing voluntarily.

We reviewed the **stress-testing** practices in ten large firms in the banking, building society and investment banking sectors. Most firms had practices that went some way to meeting our requirements but further improvements were needed, particularly where firms were not fully taking into account severe but plausible scenarios when making strategic or risk management decisions. In addition, together with the Bank of England, we organised a series of seminars with major firms to explore improvements in their stress testing. It is the responsibility of a firm's senior management to ensure that its affairs are adequately monitored and controlled.

In 2006 we led a **market-wide exercise** on behalf of the Tripartite Authorities based on a flu pandemic scenario. The simulation ran for six weeks and involved 3,500 staff from 70 organisations. In January 2007 we published a report setting out the main lessons learned. This work has led to a substantial improvement in Tripartite and participants' preparedness to deal with a pandemic and has raised some substantial topics for further consideration. There has been strong interest from overseas regulators in our model.

In November 2006 we launched a **business continuity management toolkit** for firms. It is an online self-assessment tool and a guide containing examples of standard and leading market practice. It helps firms to measure their resilience and recovery capability and to identify improvements to strengthen their business continuity and crisis management arrangements.

### Combating financial crime

We have played a leading role in moving the UK towards a **more principles- and risk-based approach to financial crime**. We have made changes to our own rules; in August 2006 we replaced our *Money Laundering Sourcebook* with high-level guidance in our *Senior Management, Systems and Controls Sourcebook*. We also worked with the Joint Money Laundering Steering Group (JMLSG) on its review of its Guidance Notes, participated in the negotiations over the Third EU Money Laundering Directive and helped the Financial Action Task Force to develop a risk-based approach to anti-money laundering and counter-terrorist financing. All these developments should lead to a more cost-effective regime which is responsive to developments in financial crime

techniques, reduces the scope for criminals to launder money through the UK financial system and reduces the inconvenience to honest consumers.

In September 2006 we published a consumer leaflet to raise awareness of the **changes in identity requirements**. We explained why firms are required to check customers' identity and gave advice to people having difficulty proving their identity. We also explained how identity checks help prevent crimes such as identity theft and terrorist financing.

During the year we visited 16 firms (including banks, investment banks, investment firms and insurers) to assess their systems and controls for managing **Politically Exposed Persons (PEPs)** risks. We found the firms largely complied with the JMLSG Guidance Notes and the Third EU Money Laundering Directive's PEPs provisions.

We have created a **new Financial Crime and Intelligence Division**. This will enable us to make more effective use of our financial crime expertise, with more specialist resources. We have also trained our supervisors to improve their analysis of the financial crime risks facing firms.

### Improving policy

Many of our rules derive from European Community requirements; we are required to implement Directives on time and in full. Our approach is to copy out the text into our Handbook, adding interpretative guidance where that will be helpful. We add additional requirements only where there is a proven market failure and the proposal is justified by cost-benefit analysis. As with all proposed rules and guidance, we also consider the

In February 2007 we fined Nationwide Building Society £980,000 for failing to have effective systems and controls in place to manage its **information security risks**. These failings came to light following the theft of a laptop from an employee's home. Nationwide was not aware that the laptop contained confidential customer information and did not investigate until three weeks after the theft. Nationwide's failure to implement robust systems and controls potentially exposed its customers to an increased risk of financial crime.

In November 2006 the High Court granted our application for interim restraint and freezing orders against Christian Orpin trading as PDS Business Finance. In our view, Mr Orpin operated a property scheme financed by **deposits accepted from investors without authorisation**, in breach of FSMA. Most deposit-taking and investment schemes require FSA authorisation.

In August 2006 and February 2007 the High Court placed Securetrade & Title Company Ltd and Inertia Partnership LPP into liquidation following winding-up petitions we made to the Court. Both firms had acted in breach of FSMA by helping several overseas **boiler rooms** that were unlawfully promoting and selling shares to UK investors. Earlier in 2006 we publicised the risks arising from investing through boiler rooms, warning investors that they would not have access to our complaints or compensation schemes and that the typical boiler room investor loses £20,000.

proportionality of our proposals as well as their potential impact on innovation and on the desirability of maintaining the competitive position of the UK.

### EU policymaking

We have continued to contribute significantly to the Lamfalussy Committees' work to achieve **greater supervisory convergence within Europe**. In particular, we chair the Committee of European Banking Supervisors (CEBS) Convergence Task Force, which is developing proposals for implementing the Francq Report recommendations on supervisory convergence. We support the work that the committees are now pursuing to develop their future strategies on convergence and cooperation.

In its second interim report on the structure of regulation in the EU, the **Inter-Institutional Monitoring Group** found that the Lamfalussy structure is effective but there is scope for improvement. We support this broad assessment and will continue to take an active interest in the Group's emerging conclusions and recommendations.

One of our priorities in Europe has been to encourage the Commission to adopt a **better regulation approach**. Our focus has been on promoting the use of impact assessments and we have provided advice on improving their quality and offered to participate in them.

### Markets in Financial Instruments Directive (MiFID)

MiFID introduces new requirements for a wide range of firms, particularly in relation to conduct of business and internal organisation. During the year we consulted extensively with industry and in January 2007 we finalised the rules for implementing the MiFID requirements. We introduced these rules before other Member States and this has helped UK firms prepare for implementation; we have taken a proportionate approach to minimise the burden on firms. After careful consideration and cost-benefit analysis, we notified the Commission to retain a small number of existing requirements which we believe necessary to address risk to our statutory objectives.

Together with the Treasury we have engaged closely with the industry through regular meetings with trade associations, discussions with individual firms and their advisers, and conferences. A Joint Implementation Plan published with the Treasury in May 2006 helped to keep industry up to date with our plans for consultation. Later in the year supervisors reviewed how firms in various sectors were progressing with their preparations. The results were generally encouraging and identified some common themes which we are using as a basis for further discussions with firms.

We have continued to contribute to the work being led by CESR on the practical regulatory issues arising from MiFID. We are also working with CESR and the industry to promote an evidence-based focus on intended policy outcomes within the Commission's reporting on the appropriateness and effectiveness of a number of MiFID's provisions.

We used the implementation of MiFID as an opportunity to review and simplify our *Conduct of Business Sourcebook*. These changes will affect all firms subject to our current conduct of business rules, many of which do not fall within the scope of MiFID (see *Section Two*).

### Capital Requirements Directive (CRD)

The CRD implements the revised Basel capital framework (Basel 2) in the EU and aims to ensure that the financial resources held by banks, building societies and some types of investment firms reflect the risks associated with their business profile and control environment. On 1 January 2007 our final rules and guidance came into effect following extensive consultation with the industry. 2007 is a transitional year; firms may elect to remain on the Basel 1-based rules for some or all of 2007.

We have worked closely with firms to prepare for implementation – particularly with investment firms to help them identify the impact on their capital requirements. We have also supported trade associations in their communications with members, provided practical information on our website and spoken at industry events and conferences. In addition, we have begun a major programme to review waiver applications from firms seeking to adopt the internal ratings approach to credit risk and the advanced measurement approach to operational risk.

We are collecting the key data required under the CRD through a basic electronic reporting system, which supplements firms' existing reporting. This is an interim

solution agreed in consultation with trade associations and is designed to minimise the CRD reporting requirements during 2007.

During the year we have worked closely with overseas regulators and international bodies to promote the consistent and efficient application of Basel 2/CRD and to address issues arising from the cross-border application of the new rules. Through our membership of the Basel Committee's Accord Implementation Group we are also developing a shared understanding of good practice, particularly in relation to model validation, Pillar 2 and stress testing.

### Other MiFID/CRD-related initiatives

In Consultation Paper 06/9 we consulted on implementing the requirements in MiFID and the CRD on **firms' systems and controls**. We proposed a single set of rules and guidance (a 'common platform') in our Handbook, which met the requirements of both directives and corresponded with how firms told us they organise their internal governance. Most respondents to our consultation supported this approach and the common platform will become mandatory for all firms subject to either or both of MiFID and the CRD on 1 November 2007.

As part of MiFID the Commission is reviewing the **transparency regime** for the trading of financial instruments other than shares admitted to trading on a regulated market. In July 2006, following consultation with the industry we published a Feedback Statement setting out our view that mandating transparency would not be proportionate for the UK's secondary bond markets. However, we also

asked the industry to consider what additional transparency it could provide on a voluntary basis to help price discovery for smaller participants in these markets. We believe an industry-led initiative is likely to be a more cost-effective means of addressing any transparency concerns and have had discussions with CESR and with the Commission on this basis.

As the CRD provides, the Commission, with the involvement of CEBS, is reviewing the **large exposures** regime for banks and investment firms. We set up a liaison group to discuss issues arising from the review with the

Treasury and the industry and have chaired the CEBS working group providing advice to the Commission. Our aim is to achieve a more principles-based and risk-sensitive regime that takes into account the diverse range of UK financial institutions.

During the year, through active and constructive engagement within CEBS and working closely with the Treasury, we have sought to ensure that work on the **review of the definition of capital** within the EU is undertaken in parallel with that of the Basel Committee (see *International work*).

The Commission is also reviewing the extent to which trading in **commodity derivatives** should be regulated under MiFID and the CRD. This work is at an early stage but we expect to play a significant role in influencing its outcome through our involvement in CEBS and CESR. We will use the paper on commodity markets we published in March 2007 to inform our discussions in Europe (see *Domestic policymaking*).

## Other EU initiatives

In December 2006 we introduced rule changes following our consultation on implementing the **Reinsurance Directive**. As we already required reinsurers to meet similar rules the overall effect on them was limited, with cost savings for some firms. In addition we introduced a regime for Insurance Special Purpose Vehicles to help insurers manage their risks through reinsurance more effectively.

We implemented the **Transparency Directive** on time on 20 January 2007. The changes affect periodic financial reporting and the disclosure of major shareholdings for issuers whose securities are admitted to trading on a regulated market in the EU.

We have worked closely with the Treasury and CEBS during the negotiation of the **Directive on the Prudential Assessment of Acquisitions in the Financial Sector**.

European Finance Ministers agreed the final text of the Directive at the EcoFin meeting on 27 March. The new legislation is intended to ensure cross-border acquisitions face fewer regulatory obstacles. Most

importantly, the new regime achieves an appropriate balance of power between the proposed acquirer and the competent authorities concerned.

The **Solvency 2 Directive** aims to establish a revised set of EU-wide, risk-based solvency requirements for life and non-life insurers and reinsurers, at a solo and group level. In the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) we have been actively engaged in several Working Groups, including chairing the Pillar 1 Working Group drawing up technical advice to the Commission on the drafting of the Framework Directive, and notably achieving a CEIOPS consensus on a market-consistent valuation standard for liabilities to policyholders. We achieved a good UK participation in CEIOPS' second quantitative impact study (QIS2) to test the suitability and impact of their proposals, the results of which highlighted issues for UK firms with the design of the Minimum Capital Requirement. QIS3, running from April to October 2007, is well under way. We have worked closely with the Treasury in providing comments to the Commission on draft Directive text and in preparation for Level 2 discussions.

A significant part of our work has involved working closely with the industry, including through the FSA/Treasury High Level Group and our Insurance Standing Group. In 2006 we published two FSA/Treasury Discussion Papers: *Solvency 2: a new framework for prudential regulation of insurance in the EU*; and *Supervising Insurance Groups under Solvency 2*, which has been influential in highlighting the need for streamlined group supervision in Solvency 2.

## International work

Within the **Basel Committee on Banking Supervision** we have continued to contribute to the development of a range of initiatives. A key achievement was agreement on the revised ‘Core Principles for Effective Banking Supervision’, which is a benchmark for assessing the quality of a country’s banking supervisory system. We have also supported the Committee’s efforts to begin work on revising the definition of capital and liquidity risk management.

We chair the **International Association of Insurance Supervisors subcommittees** on developing solvency standards and reinsurance transparency. Through these committees we have contributed to a range of internationally agreed principles, standards and guidance, including in asset liability management, finite reinsurance and solvency assessments.

In November 2006 we hosted the **International Organisation of Securities Commissions (IOSCO) Technical Committee and Conference**. This helped to raise the profile of IOSCO and enhance communications between it and the industry. We have also supported IOSCO’s initiative to prioritise its agenda. In addition, we chair IOSCO’s Standing Committee 4, which leads on the work to **raise standards of cooperation** in jurisdictions that are important to the global financial markets. Standing Committee 4 has worked closely with a number of jurisdictions that carry out significant cross-border business. This has resulted in improved standards in several cases.

During the year we have worked in the **Financial Stability Forum** to identify vulnerabilities and propose solutions. In particular we have supported the Forum in seeking to develop a dialogue with industry to identify market failures that might affect financial stability.

On **International Financial Reporting Standards**, we have worked through CESR-Fin and IOSCO to develop standards that are capable of consistent application, interpretation and enforcement. We have made good progress towards our aim of achieving convergence in global accounting standards, particularly on the requirements for EU issuers with a US listing and non-EU issuers.

## Domestic policymaking

In December 2006 we published Policy Statement PS06/14 introducing further changes to our **prudential regime for insurers**. By removing many of the existing areas of super-equivalence compared with the EU Life Directives, our new requirements release around £4bn of capital across the life insurance industry. We also introduced a set of sub-principles and confirmed associated industry guidance for both life and non-life insurers. This will make our Individual Capital Adequacy Standards regime more principles based and give firms greater clarity when undertaking their ICAs.

In 2006 our new rules limiting the **use of dealing commission** by asset managers to execution and research came into effect. Our rules set the framework within which an industry-led solution has been introduced to improve the transparency and accountability of fund managers to their clients.

We expect this to increase innovation and enhance the international competitiveness of UK markets. In October 2006 we published a report by economic consultants, who have helped us develop a way to assess the extent to which our new rules and the industry-led solution deliver the desired outcomes. The report establishes a baseline against which we can assess future changes.

In November 2006 we published a Discussion Paper on the impact that the growth in the **private equity market** has had on the UK’s wholesale markets. We identified some key emerging risks and invited the market to comment on our analysis of these risks and our proposals for addressing them. In particular we are proposing to carry out a regular survey of leveraged buyout activity and to enhance financial reporting requirements for private equity firms. Our aim is to achieve a proportionate level of regulatory engagement with private equity markets, providing appropriate investor protection while taking into account the impact of any action on UK competitiveness.

We published a paper in March 2007 examining the recent growth in investment in **commodity markets**. We found that the recent growth, combined with the development of new products and new participants, has given rise to a number of new risks and challenges. Firms and exchanges need to consider how they have addressed these risks and continue to mitigate them in the future.

In 2006 we published two Consultation Papers, CP06/4 and CP06/21, proposing changes to the **listing rules for investment entities**. Our new rules are intended to introduce a more principles-based approach to determining eligibility for listing, which reduces barriers to listing and improves the competitive position of the UK's capital markets while maintaining appropriate standards of investor protection. In response to market feedback we will consult further later in the year on introducing a single listing regime for all UK and overseas closed-ended investment funds.

In October 2006 we published Consultation Paper CP06/17 proposing **changes to the listing and prospectus rules**. Our proposals simplify and modernise the listing regime and are designed to achieve a more efficient, innovative and competitive market.