Promoting efficient, orderly and fair markets

INTRODUCTION

Much of the work which we carried out in 2008/09 to promote efficient, orderly and fair markets – specifically, our work in response to the global financial crisis – is described in Section One. This includes the actions we took on liquidity, capital, stress testing, credit rating agencies and short selling.

So in this Section, we describe other aspects of our work over the past year focusing on prudential regulation of firms, market regulation and reducing financial crime and market abuse. This has seen us place significant emphasis and attention on ensuring firms adjust to the changing economic environment.

PRUDENTIAL REGULATION OF FIRMS

Our work relating to the prudential regulation of firms can be usefully organised under three headings:

i. Developments in EU and international policy on prudential regulation;

ii. Developments in domestic policy on prudential regulation;

iii. Specific activities relating to the application of existing policies

Developments in EU and international policy on prudential regulation

By law we are required to take into account the 'principles of good regulation'. The global scale of the financial crisis has highlighted the importance of the principle relating to the 'international character of financial services and markets'. It has never been more important for us to take into account the international aspects of financial business. As well as the work discussed in Section One, in the past year we were involved in a wide range of EU and international initiatives.

We continued to contribute effectively to the development of the EU's **Solvency II Directive**. The Directive aims to strengthen the prudential regulation of the insurance sector through new regulatory capital requirements and risk-management standards. The new rules will replace the current Solvency I Directive requirements and our existing individual capital adequacy standards (ICAS) for insurers in the UK.

In September 2008 we published a DP setting out some of the expected key changes in UK regulatory requirements and practice, and identified areas in which firms should focus their preparations for the new regime. We were also heavily involved in the work of the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS). This focused on preparing the technical advice to the European Commission on the Level 2 implementing measures needed to make the new regulatory framework operational. To inform our contribution in CEIOPS and, in particular, so that EU regulation adequately reflects the specificities of the UK market, we have maintained close contact and consulted with the UK industry through the regular meetings of the Insurance Standing Group and its technical sub-groups.

We continue to engage in wider international work on the development of global solvency standards for insurers and insurance groups, through chairing the Solvency and Actuarial Issues Subcommittee of the International Association of Insurance Supervisors.

The European Commission consulted on a wide-ranging package of amendments to the **Capital Requirements Directive (CRD)**, including large exposures, hybrid capital and securitisations. We contributed to the technical advice to the Commission provided by the CEBS, and supported the Treasury in the Commission-led CRD working group and in representing the UK in European Council negotiations.

A key outcome from this work was a more balanced, proportionate set of amendments agreed in the Council – for example, relief for smaller institutions in the limit that is likely to apply to large inter-bank exposures. Most of the CRD amendments were subject to the European co-decision process. The final compromise text is due to be published in 2009 once agreement is reached between Council and European Parliament.

In 2007 the European Parliament and the European Council (EC) adopted the Acquisitions Directive, which concerns procedural rules and evaluation criteria for the **prudential assessment of acquisitions** and increases of holdings in the financial sector. In September 2008 we published a joint CP with the Treasury setting out how we propose to implement the Directive using an effective, proportionate, and risk-based approach. We aim to develop a regime that takes into account the scope of the Directive and the level of harmonisation required; the notification and decision-making process; and the deadlines for assessment and prudential criteria.

The Directive was transposed into FSMA in March 2009. We made corresponding changes to our Handbook requirements and published them in March 2009. A number of new criminal offences have also been introduced into FSMA; for example, a controller who fails to notify us that they have taken a percentage control of an FSA-authorised firm may now be sentenced on indictment to an unlimited fine; previously the level was capped at £5,000.

In 2008 the European Commission published its long-awaited package of structural reforms to the **Undertakings for Collective Investments in Transferable Securities (UCITS)** Directive (known as UCITS IV). UCITS schemes are a pan-European retail investment product. Working with the Treasury, we contributed to the negotiations on the draft recast Directive. We were able to achieve drafting that reflected UK policies; in particular the original Commission proposals omitted the 'management company passport' (MCP) but this was inserted during the Council negotiations. The Directive should be formally adopted in 2009.

Developments in domestic policy on prudential regulation

In 2008/09 we published a CP and subsequent Policy Statement outlining our proposals for modifying the Client Assets Sourcebook (CASS). Our key policy aim in CP08/6 was to simplify the structure of our rules, increase the flexibility available to firms by moving to more outcomes-focused regulation and, where possible, provide a common platform for firms, based on the Markets in Financial Instruments Directive (MiFID) standards.

We completed our review of CASS with the release of an updated sourcebook in January 2009. The result is a more streamlined and easier-to-use sourcebook, which was widely welcomed by industry. We have deleted rules and guidance where justified by cost-benefit analysis and simplified the wording in CASS by adopting a plain English style.

Following the insolvency of Lehman Brothers International (Europe) we provided regulatory guidance on CASS to the joint administrators. In addition, we reviewed client asset and money systems and controls in a significant number of firms, subsequently issuing a Dear Compliance Officer letter, detailing how we expect firms to comply with our client asset requirements.

During 2008/09 we worked to improve the prudential requirements for **personal investment firms (PIFs)** and to help reduce the impact of market failures in the sector. In November we published a CP introducing a revised set of standards for firms. Our reforms, which will mean PIFs holding more capital resources where necessary, are designed to mitigate the impact of such firms on the FSCS and to reduce the complexity of the capital resources rules.

The proposed new regime, which builds on earlier work, includes:

- simplifying the calculation of capital resources and making it consistent for all firms;
- extending the Expenditure Based Requirement to all firms, based on three months of annual fixed expenditure and raising the minimum capital resources level from £10,000 to £20,000; and
- mandating a sliding scale of additional capital resources, which firms should hold as a provision against potential liabilities for any business or activity excluded from their professional indemnity insurance policies.

The prudential proposals are closely linked to issues covered in the FS to the Retail Distribution Review (RDR) discussed in Section Three.

In July 2008 we completed our thematic review of the **Management of Conflicts of Interest in Private Equity Firms** and published our findings in our July 2008 *Capital Markets Bulletin*. The key objectives were to inform ourselves and wider industry stakeholders of the prevailing standards for conflict of interest identification and management in the private equity industry, to promote good practice and to raise awareness of areas for

improvement within both the market and regulatory community.

Most of the firms we reviewed appeared to operate business models demonstrating a high degree of alignment of interests between the firm and its fund investors. However, we noted the need for firms to ensure they develop sufficiently formalised internal polices/procedures to identify and mitigate those areas where conflicts may, or are likely to, occur. These findings are being developed with individual firms and through broader engagement at relevant industry seminars.

Box Four: Soundly managed firms – taking action

On 13 August 2008, we fined the UK operations of Credit Suisse (the subsidiaries) £5.6m for breaching Principles 2 (management and control) and 3 (due skill, care and diligence) of our Principles for Business. Credit Suisse announced its financial results for 2007 on 12 February 2008. On 19 February 2008, Credit Suisse announced that it had identified mis-marking and pricing errors by a small number of traders and that it was re-pricing certain asset-backed securities. The re-pricing involved a write down of revenues by US$2.65 billion. The subsidiaries had failed to take appropriate steps to control the potentially high-risk combination in the Structured Credit Group's holdings of exotic products, opaque valuations and high leverage. The sudden and unexpected announcement of the write down had the potential to undermine market confidence.

In the insurance sector, during 2008/09 we continued our work to assess how firms apply controls to their **underwriting strategy**. We reviewed how individual insurers set their risk appetite and underwriting strategies, and the systems they have in place for monitoring their performance against their strategy. These assessments will continue to be a core theme in our supervision.

We also maintained our focus on addressing risks related to **wholesale insurance intermediaries**. A key part of this was the work conducted with the General Insurance Market trade bodies to develop industry guidance relating to transparency, conflicts of interest and disclosure. We also published a paper explaining how we view credit write-backs and our expectations of how firms should deal with this in line with our Client Asset rules, relevant trust law and Generally Accepted Accounting Principles (GAAP). Firms that handle client money need to take reasonable care to establish and maintain effective systems and controls for compliance with our client money requirements.

MARKET REGULATION

Activity this year has focused on: actions to address risks in over the counter (OTC) derivative markets; a wide range of initiatives relating to the equity markets; and initiatives relating to covered bond markets, Islamic finance and emissions trading.

In late 2005 we took joint international regulatory action to monitor and reduce **derivative trade** confirmation backlogs among large dealer firms. Since work began in this area we have achieved:

- 92% backlog reduction in credit derivatives (despite volume increases of over 300% since 2005);
- 74% confirmation backlog reductions in equity derivatives since 2006; and
- 53% confirmation backlog reductions in interest rate derivatives since 2006.

During 2008/09 we took steps to address our concerns about the increased volume of trading in derivatives. We ensured that firms set themselves targets for reducing and automating outstanding OTC derivative classes, including credit, rates, foreign exchange, equity and commodities, and we requested reporting on collateral management for the first time.

In addition, the industry has embraced automation and electronic platforms and is moving towards central-clearing counterparties for credit derivatives, which will reduce counterparty credit risk and improve transparency of the market. We have continued to monitor firms' performance against increasingly tough backlog reduction and automation targets.

There has been a significant amount of change in international capital markets in recent years. In response to this we published a DP on whether any changes should be made to the structure of the **UK Listing Regime** to ensure that it retains sufficient clarity for market participants while maintaining the competitiveness of the UK markets.

We published CP08/21 in November 2008 proposing changes to the Listing Regime to:

- improve the clarity of the UK Listing Regime's different segments;
- enhance disclosure requirements on corporate governance for overseas companies; and

- provide a level playing field for UK companies in terms of their listing options.

Last year we completed our work on reviewing the **sponsor regime.** In March 2008, we published a CP asking for market participants' views on our proposed changes to the regime. The proposals set were designed to help us achieve our long-term objective of more outcomes-focused regulation.

In July 2008, we published CP08/12. This proposed two additional amendments to the sponsor regime, relating to sponsor independence and the provision of information to us. The new Listing Rules for sponsor firms deliver, in a more outcomes-focused manner than the old rules, a more practical regime that reflects good market practice. This work has contributed to a key UK Listing Authority (UKLA) objective of providing an appropriate level of protection for investors in listed securities.

Following the publication of the **Rights Issue Review Group** report to the Chancellor in November 2008, we were commissioned to consult on reducing the rights issue subscription period from 21 to 14 days (or ten business days) as a means of facilitating the raising of new capital by issuers. We published CP09/4 on shortening the rights issue subscription period and made the changes to the Listing Rules to provide for a period of at least ten business days, effective from 9 February 2009. The shortened period allows issuers to raise capital more quickly and effectively – which is an important factor in maintaining market confidence and international competitiveness in this area.

Box Five: Market monitoring – taking action

Clear, efficient and orderly markets depend on timely and proper disclosure of relevant information. Investors deserve this, and we expect firms to meet our high standards. Where these standards are not adhered to, we have taken tough enforcement action. Last year, we fined three firms a total of £735,000 for listings breaches. Woolworths Group plc were fined £350,000, Wolfson Microelectronics Plc £140,000 and Entertainment Rights plc were fined £245,000 for failing to disclose price sensitive information to the market in a timely manner.

We have carried out significant work over the last two years to address issues raised by the use of **Contracts for Difference (CfDs)**, which to date have not been within the scope of the UK's disclosure rules. This has led to situations where CfDs have been used on an undisclosed basis to build stakes in companies or to exert influence over corporate governance.

Following consultation, we made new rules requiring aggregation of CfDs and similar instruments with shares and other currently disclosable instruments, so that disclosures of all such instruments are made when they exceed the threshold of 3% of a company's shares. This helps to improve market confidence, as CfDs cannot now be used on an undisclosed basis to circumvent the intended benefit of the Disclosure Rules. The regime, which applies to UK incorporated issuers only, comes into effect in June 2009.

In March 2008 the UK **Regulated Covered Bond Legislation** came into effect, implementing Article 22(4) of the Undertakings for Collective Investments in Transferable Securities (UCITS) Directive, Article 22(4) of the Third Non-Life Directive and Article 24(4) of the Consolidated Life Directive.

After a detailed review of initial applications we added the first seven issuers to the UK Regulated Covered Bonds Register (available on our website) in November 2008. Investors with an exposure to covered bonds that meet the necessary requirements may benefit from a preferential regulatory capital requirement reduction in risk weight of up to 60%. This is designed to bring the UK-covered bond market onto a level playing field with other European jurisdictions. We believe this will provide investors with greater confidence in the market. Regulated covered bond issuers and programmes are now subject to continuous supervision.

During the past year we continued to make progress on developing an appropriate regulatory framework for **Islamic finance** in the UK. Working with the Treasury we published a joint CP in December 2008 proposing a new legislative framework for the regulation of Sukuk (alternative finance investment bonds) in the UK. This initiative is important in ensuring that legislation is designed in a way that creates a level playing field between conventional and Islamic debt instruments. Alongside this work we chaired an IOSCO working group that produced a report on the compatibility of the IOSCO principles with the principles and practices of Islamic finance. The report highlighted potential risks

facing the industry and indicated that there were no substantive conflicts between the IOSCO principles and Islamic finance.

To understand what risks, if any, were emerging from the rapidly growing **emissions trading markets** we undertook a series of discussions with several investment banks, infrastructure providers, price reporters and specialist carbon market participants. Using this information and our own research we published a paper in March 2008 that identified areas of potential risk. Key issues included the lack of pricing history, availability of information, market abuse and market liquidity.

As outlined in the paper, financial emissions derivatives market activity falls within our regulatory remit. However, we do not have any specific responsibilities regarding emissions trading. Our responsibilities are the same as they are for other commodities derivatives markets. We believe that this work has improved stakeholders' understanding of potential risks in this emerging market. We will continue our market supervision of this area and communicate any new risks as they develop.

REDUCING FINANCIAL CRIME AND MARKET ABUSE

One of our statutory objectives is to reduce the extent to which it is possible for a financial services business to be used for financial crime. During 2008/09, we demonstrated that we are willing to take on tough challenges – we used all our civil, criminal and administrative powers to deliver on our obligations where we have had the lead responsibility. Our focus is on delivering credible deterrence under our obligations in the FSMA. We took action in relation to market-related offences (issuing our first ever criminal conviction for insider dealing, see Box Six) and issues relating to unauthorised activities such as share sale frauds (sometimes known as boiler rooms).

We are not, and do not seek to be, the responsible agency for prosecuting financial fraud in its conventional or wider sense. This responsibility is shared elsewhere: for example, by law enforcement and other prosecutors. When we suspect financial crimes in our regulated community, and where we cannot take direct action to prosecute offenders, we will exclude perpetrators from the regulated community and progress our credible deterrence agenda through our partners, by providing intelligence and facilitating the flow of information.

Market abuse

In June 2008 we published our overall anti-market-abuse strategy. A key component of our financial crime objectives and our credible deterrence strategy is our work to tackle market abuse. We secured an increase in the number of enforcement outcomes with nine market-abuse penalties announced and commenced three new criminal prosecutions for insider dealing. In March 2009, our first criminal insider dealing case resulted in guilty verdicts and eight-month custodial sentences for both defendants. As outlined in Section One, we took action to prevent potential abuse and disorderly markets arising from short selling in certain market sectors and published proposals for the longer-term regime.

We maintained our focus on working with industry to strengthen anti-market-abuse systems and controls. We placed particular emphasis on controls for dealing with inside information on mergers and acquisitions by regulated and non-regulated firms. We wrote to more than 60 FSA-regulated firms, including the major corporate finance advisory firms, to initiate system and control reviews and make improvements where necessary. In June an industry working group we sponsored published a set of principles of good practice to help non-regulated firms review their mergers and acquisitions systems and controls. These actions support our stated intention of taking a tougher stance on market abuse to achieve a credible deterrence and taking action where appropriate, while at the same time continuing to promote steps to prevent abuse occurring.

We have made good progress on implementing the Sabre II programme. Work during 2008 focused on putting in place the functionality needed to enhance our detection and pursuit of market abuse and to process securities derivative transaction reports using the Alternative Instrument Identifier, which we need to finish implementing our MiFID obligations.

Market cleanliness statistics

As part of our market monitoring activity, we analyse the scale of share prices movements in the two days ahead of regulatory announcements and identify movements that are abnormal compared to a stock's normal movement. We publish the statistics annually.

It can be easy to misinterpret what the market cleanliness statistics show, especially with regard to share price movements ahead of takeover announcements. It is important to realise that the level of abnormal pre-announcement price movements (APPMs) does not provide a precise measure of the level of suspected insider dealing. Many factors, other than insider trading, could cause an abnormal price movement ahead of a takeover announcement; for example financial analysts or the media correctly assessing which companies are likely takeover targets, non abusive trades that just happen to

fall before an announcement. In some circumstances there may also be a deliberate 'strategic' leak of information to help position an important deal in the marketplace. This is clearly improper but it may not actually give rise to any opportunity for insider dealing. It is not possible to determine which of these factors are behind each abnormal price movement and therefore whether any insider dealing might have taken place.

It is also important to note that due to the statistical thresholds used when computing abnormal pre-announcement price movements (APPMs), even if there is no insider or other abnormal trading, we would not expect the results to be zero but, on average, 10% for the takeovers data set and 3% for the set of other significant trading announcements made by FTSE 350 firms. For reasons of statistical significance, a movement of about 5% in either direction is needed before it is safe to conclude that the level of informed trading has changed from one period to the next. Finally, extreme volatility of share prices, as we saw during 2008, may also affect the results. The full methodology and analysis is in our March 2007 Occasional Paper and April 2008 Market Watch on our website.

For the reasons set out above the statistics are only one of many factors that we consider when setting our anti-market abuse strategy.

The level of APPMs for 2008 is similar to 2007. We remain committed to achieving a reduction in all types of market abuse through continuing to pursue our proactive market abuse strategy. We expect that our current strategy will achieve credible deterrence in the markets.

Table 2.1: The measure of market cleanliness for the takeovers analysis

Year	Announcements	APPMs	Percentage (APPMs/Announcements)
2000	183	44	24.0%
2002	147	37	25.1%
2003	160	22	13.8%
2004	102	33	32.4%
2005	177	42	23.7%
2006	199	57	28.6%
2007	167	48	28.7%
2008	181	53	29.3%

Table 2.2: The measure of market cleanliness for the FTSE 350 analysis

Years	Announcements	Significant Announcements	APPMs	Percentage (APPMs/Significant Announcements)
1998/1999/2000	487	51	10	19.6%
2002/2003	734	54	6	11.1%
2004/2005	927	49	1	2.0%
2006/2007	1,085	78	6	7.7%
2008	428	50	5*	10.0%

*In calculating the number of APPMs for the FTSE 350 analysis we cleansed the data by stripping-out two positive company announcements that were preceded by downward share price movements. This is because it is clear that both share price falls were attributable to wider market declines at that time and not to the announcements which were positive news stories.

Box Six: Tackling market abuse – criminal prosecutions and civil penalties

- In March 2009, Mr Christopher McQuoid, a solicitor, and his father-in-law, Mr James William Melbourne were found guilty of insider-dealing. The jury found that Mr McQuoid had passed inside information to his father-in-law and that Mr Melbourne had traded, and made a profit using the information. This was the first insider dealing criminal prosecution brought by the FSA, as part of our tougher approach to tackling market abuse.

- In addition to the McQuoid/Melbourne prosecution, we began two other insider-dealing prosecutions and conducted two major search and arrest operations in 2009.

- Also in March 2009, we won the market abuse case at the Tribunal against Winterflood and two of its traders, Mr Sotiriou and Mr Robins. Winterflood is an FSA-authorised firm and the largest market maker in AIM securities. In June 2008, we found that Winterflood and its traders had played a pivotal role in an illegal share ramping scheme relating to Fundamental-E Investments Plc (FEI), an AIM-listed company. In particular, the market maker had misused rollovers and delayed rollovers, thereby creating a distortion in the market for FEI shares and misleading the market for about six months in 2004. Winterflood disagreed with our findings and referred the matter to the tribunal, who upheld our decision. As a result we imposed fines of £4m, £200,000 and £50,000 on Winterflood, Mr Sotiriou and Mr Robins respectively.

- In addition to the Winterflood outcome, we imposed financial penalties totalling £675,000 on eight individuals and one firm for market abuse.

In October 2008 we published our thematic work findings following visits to a cross section of hedge fund managers (HFMs) in order to ascertain the extent and appropriateness of market conduct controls within the sector. The firms participating in the thematic work all appeared to have given reasonable consideration to market abuse issues. We found examples of good practice, as well as scope for improvement in some areas. Given the range of strategies and investment styles employed by HFMs and the varying governance and reporting structures within those firms, we expect variances in their market abuse control procedures. We will incorporate our findings in our supervisory visits to HFMs, assessing industry progress through future risk assessments of individual firms.

Financial crime

We require every firm to establish and maintain effective systems and controls to counter the risk of financial crime, including bribery and corruption associated with making payments to third parties. As part of our thematic work in this area, which started in Q4 2008, we are assessing the adequacy of firms' systems and controls for the prevention of illicit payments and inducements.

We also require participants in the financial services industry to have integrity. We have continued to work towards achieving our financial crime objective by keeping persons of doubtful integrity out of UK financial services by closely scrutinising applications from individuals and firms at the approval and authorisation stages of the application process.

Box Seven: Financial crime – credible deterrence

On 8 January 2009, we fined Aon Limited (Aon) £5.25m for breaches of Principle 3 of our Principles for Business (management and control). We found that they failed to take reasonable care to establish and maintain effective systems and controls to counter the risks of bribery and corruption associated with making payments to overseas firms and individuals. As a result of Aon's weak control environment, the firm made various suspicious payments, amounting to approximately US$7m, to a number of overseas firms and individuals.

To gain a better understanding of the level and type of financial crime risks within particular industry sectors, we completed a number of thematic reviews during the year. One of these focused on assessing firms' data security controls to prevent loss or theft of consumers' personal data by employees or third-party suppliers. We published our findings in April 2008, and provided informal guidance for firms to help them to implement more effective controls.

Other examples of our thematic work this year include the review of firms' governance and controls over key offshore functions; we published a factsheet summarising the findings of this work in April 2009. We also started work on our small firms review – initiated as a result of feedback from the Financial Action Task-Force (FATF) Mutual Evaluation of the UK's anti-money laundering and terrorist financing regime. Once completed, this work will allow us to establish a baseline, against which we can assess, in a statistically valid way, the effectiveness of UK small firms' anti-financial crime systems and controls.

As required under the Money Laundering Regulations 2007, we began monitoring the anti-money laundering controls of businesses such as leasing companies and commercial finance companies, including forfeiting and safe custody service providers. Responding to the risk that the safe custody sector posed the highest financial crime risk within the sector, we began work on developing industry-led guidelines. We also hosted a conference for safe custody providers to raise awareness of the key financial crime risks affecting the sector.

We also continue to work closely with our European counterparts in developing a proportionate approach to tackling financial crime in the development of international policy. During 2008 we increased our participation and leadership in the FATF and continued to work with other international organisations. Our work has helped to promote a common interpretation of European anti-money laundering and counter terrorist financing legislation and assisted in the adoption of proportionate approaches to financial crime prevention across Europe.

Responding to indicators suggesting that lenders were falling victim to consumer and organised mortgage fraud, we re-launched the 2006 Information From Lenders (IFL) scheme. The scheme is run in collaboration with the Council for Mortgage Lenders (CML) and aims to improve the sharing of information to reduce the risk of financial crime occurring. As a result of this work, we intensified our supervision of many firms – some of these have been prohibited or received heavy fines, while others have left the industry altogether.

We worked closely with relevant trade bodies to encourage market-led initiatives, while continuing to supervise both brokers and lenders to ensure that the industry is actively raising its defences against mortgage fraud. In August 2008, we published information about our work on fraud, directed at smaller mortgage brokers. This included an 'aide memoire' aimed at helping smaller brokers to understand what fraud looks like and how it can affect them. This project also increased engagement with lenders and we developed procedures to ensure consistency of our approach in dealing with firms.

As demonstrated by the outcome of our work with the CML and law enforcement, we are aware that effective collaboration between stakeholders is essential in fighting financial crime. Throughout the year we have strengthened our relationships with our financial crime stakeholders, such as law enforcement, firms and government bodies. An example of this was the arrest of 11 people by the City of London Police on suspicion of mortgage fraud. We worked closely with police forces to ensure that regulatory and criminal action was pursued where possible. We also developed a close working relationship with the newly formed National Fraud Strategic Authority (established October 2008) and are collaborating with them to help develop their financial crime consumer awareness strategy.

Box Eight: Mortgage fraud – taking action

Cracking down on mortgage fraud is an important strand of delivering our credible deterrence strategy. Mortgage lenders provide us with intelligence on suspect brokers and we use our powers to investigate and take strong enforcement action. During the year, we prohibited 23 individuals and imposed three financial penalties of over £100,000 each on brokers who were knowingly concerned in mortgage fraud. We also imposed penalties on firms that had failed to establish and maintain effective systems and controls to counter the risk they could be used for mortgage fraud.