# Chairman's statement

Lord Turner, FSA Chairman

Over the last 18 months and with increasing intensity after September 2008 the global financial system has suffered a huge crisis, certainly the worst for 70 years. Severe problems emerged in bank and bank-like institutions in many countries simultaneously: the ability of the banking system to extend credit to the real economy has been impaired: and as a result global economic growth has turned negative for the first time since the second world war, with many developed countries, including the UK, suffering major recessions.

The year 2008/09 has therefore been an extremely difficult one for regulators across the world. I became Chairman of the FSA half-way through that year, and my first six months coincided with the most extreme phase of the crisis. I joined an FSA working very hard to address the huge challenges we faced. Looking at 2008/09 as a whole, I believe the FSA has dealt successfully with the immediate crisis, and taken actions to ensure that we build a more stable financial system for the future.

The FSA's Annual Report has for several years been organised around three strategic aims: 'Promoting efficient, orderly and fair markets', 'Helping customers achieve a fair deal', and 'Improving our business capability and effectiveness'. This year's report maintains this structure, but starts with a chapter on 'Financial stability and supervision of firms – responding to the crisis.' This reflects the vital importance of these issues over the last year, and the large proportion of senior management time which has had to be devoted to the challenges – both short and long-term – of ensuring financial stability.

Financial stability was not explicitly defined in the Financial Services and Markets Act as one of the FSA's statutory objectives: arguably it should be one. But it is certainly implied by one of the four statutory objectives which are set out – 'Maintaining confidence in the financial system'. And all of the FSA's activities over the year 2008/09 have been focused on meeting this and our other three statutory objectives. It is therefore useful to comment on our performance under these headings.

## Maintaining confidence in the financial system

Between mid 2007 and mid 2008 confidence in the global banking and financial system declined: then, after the failure of Lehman Brothers in September 2008, it suffered a dramatic collapse, requiring exceptional interventions in mid October. Clearly this implies that financial authorities in total – finance ministries, central banks and regulators, including the FSA – must have made what in retrospect were serious mistakes. Our challenge over this year has therefore been to address the immediate crisis and to start building a better system for the future.

Crisis management activities have seen the FSA play the leading role in dealing with actual or potential failure in particular institutions: the Report sets out details of these operations, which have created exceptional workloads for particular groups of staff and have been delivered to a high professional standard. The crisis has also involved the FSA working intensely with our Tripartite partners in debating the options for system-wide policy interventions – such as the Bank Recapitalisation Scheme, the Credit Guarantee Scheme, and the Asset Protection Scheme – and in implementing these initiatives. These measures have stabilised the financial system and laid a sound base for the return of confidence.

But the full return of confidence will only occur slowly: the last year has brutally reminded us how vital confidence in the banking system is, how potentially fragile, and how harmful is its loss. It is therefore crucial that we also take steps to create a more robust system for the future. Two major FSA initiatives have been designed to ensure this. These have been:

- The Supervisory Enhancement Programme, which was launched six months before I joined as Chairman, and which will result in a major shift in the FSA's supervisory approach, particularly but not exclusively in relation to high-impact banks and bank-like institutions. Hector Sants' CEO report and Section One of this document describe this vital programme, which is well on the way to full implementation.

- A detailed analysis of the causes of the financial crisis and a comprehensive review of the regulatory policy. This resulted in March 2009 in the publication of *The Turner Review*, which proposes fundamental changes in our future approach to capital, liquidity and accounting, and to the regulation and supervision of credit rating agencies, hedge funds, and large cross-border and complex banks. The FSA is now developing detailed implementation plans for those reforms which we can pursue alone. And we are intensively involved in the Europe-wide and global debates (within, for instance, the Financial Stability Board and the Basel Committee on Banking Supervision) which will result in Europe-wide or global agreements on the way forward.

Much of our focus over the last year has inevitably been on the major immediate problems and these have been in the banking system. But the FSA has also been intensively involved, as the Report sets out, in addressing prudential issues relating to the insurance sector. We have dealt with potential short-term stresses arising from the banking crisis: and have been actively involved in achieving a sound European prudential framework, where the Solvency II Directive will play a crucial role.

## Securing the appropriate degree of protection for consumers

FSMA also sets the FSA a consumer protection objective. Maintaining financial stability and confidence is in itself a crucial means by which we pursue this objective: and it is important to note that no retail depositor at a UK bank has lost money during this financial crisis. The improvements to our regulatory and supervisory approaches outlined above will minimise the likelihood that maintaining that record in the future requires a repeat of the public finance support which has been required over the last year. Reforms to the deposit protection scheme, some of which we have already implemented, and on some of which we are now consulting, will also play a key role in this regard.

But the way in which firms conduct their business is also crucial. The Report describes a number of successful conduct initiatives, such as our work to tackle mis-selling of payment protection insurance (PPI). It also describes the progress of the Retail Distribution Review. Over the last two years the FSA has been involved in an extensive period of research and consultation to inform a redesign of the rules relating to the distribution of retail investment, insurance and pension products, aiming to achieve a step-change in the industry's ability to serve the real needs of customers in a cost-effective, transparent and fair fashion. The policy development stage is now complete, and we will implement the changes over the next year.

## Promoting public understanding of the financial system

The FSA's commitment to this objective and the expectations placed on us by government have increased significantly over the last several years. Our financial capability work now involves a wide range of activities, encompassing information, education and guidance initiatives with: schoolchildren; young adults not in employment, education or training; students in further and higher education; employees in the workplace; new parents; more vulnerable consumers reached through our work with non-profit organisations; and the money guidance pathfinder – branded *Moneymadeclear* – delivering online, phone and face-to-face services. These are described in Section Three. Over the coming year, we will develop more initiatives to help adults make sensible financial decisions through the recession. Results from the regional pathfinder of *Moneymadeclear* will help inform the future of a money guidance national service, the need for which is ever more pressing.

## Reduction of financial crime

During the past year, we have demonstrated our resolve to bring credible deterrence to bear on financial crime. On tackling market misconduct, we secured two convictions and a custodial sentence in our first ever insider dealing criminal trial – a clear warning that wrongdoers who cheat the market will be held to account. We have taken action against share sale frauds (boiler rooms) and mortgage fraud in conjunction with the City of London Police. We fined or prohibited 22 mortgage brokers for fraudulent activity (rising from 11 in 2007) and have referred a number of cases to the police leading to a significant number of arrests in the last year.

Financial crime is an international problem and the FSA has continued to support international solutions ranging from policy development on anti-money laundering with the Financial Action Task Force and the EU to increased engagement with international law enforcement partners for the purposes of intelligence sharing. Since prevention is the first step in fighting financial crime, we have continued to carry out and publish thematic reviews of firms' financial crime controls and we continue to keep persons of doubtful integrity out of the financial system.

The activities described above have placed huge demands on FSA staff over the last year, both as we have responded to the crisis, and as we have implemented major changes to improve our future effectiveness. I would therefore like to thank all of the staff for their hard work and professionalism in what have been often stressful times.

The year 2008/09 has also placed exceptional demands on the non-executive members of the Board, who have responded with alacrity to numerous emergency Board meetings, and provided excellent counsel to the Executive in relation to both short-term challenges and long-term priorities. I thank them for their hard work and commitment. My thanks and those of the Board should also be recorded to Sir James Crosby for his significant contributions to the Board prior to his resignation in February. And among our Executive Directors, David Kenmir has left the Board at the end of March after ten years of very strong contributions to the FSA, as Managing Director (MD) of Operations and for a time as MD of the Retail Business Unit.

Finally in a report which covers a full year of the FSA's work, it is important to remember that the FSA was chaired for the first six months by Sir Callum McCarthy, who contributed greatly to the FSA's response to the growing crisis and worked with Hector Sants to put in place many of the changes in FSA approach which have subsequently been further refined. I would like to thank him for all his contributions over five years as Chairman of the FSA.

Lord Turner