

Table of Contents

Foreword	xi
1 The Regulation of Banking – An Introduction	1
John Tattersall	
<i>Partner</i>	
<i>PricewaterhouseCoopers LLP</i>	
1.1 Background	1
1.2 Development of the Financial Services Authority	3
1.3 The conflicting pressures for the FSA	4
1.4 The FSA's approach	5
2 The Legislation	9
Michael Blair QC	
2.1 The Regulator	9
2.2 The authorisation requirement	11
2.3 Control over financial promotion	14
2.4 Control of business transfers	15
2.5 Market abuse	16
2.6 Hearings and appeals	17
2.7 Rules and guidance	18
2.8 Information gathering and investigation	19
2.9 Control	19
2.10 Miscellaneous	20
3 The Interaction between FSA Regulation and International Bodies: The Basel Committee and the European Union	25
Frederik C Musch	
<i>Chairman, Financial Services Regulatory Practice</i>	
<i>PricewaterhouseCoopers LLP</i>	
3.1 Introduction	25
3.2 The historical context	26
3.3 The Basel Committee	27
3.4 The European Union	34
3.5 The Joint Forum	40
3.6 Some issues and conclusion	42

4	The FSA's Approach to the Supervision of Banks	47
	John Tattersall	
	<i>Partner</i>	
	<i>PricewaterhouseCoopers LLP</i>	
4.1	The FSA's priorities	47
4.2	The FSA's requirements	51
4.3	The FSA's approach to risk assessment	60
4.4	Individual capital adequacy assessment process	66
4.5	Market discipline	71
5	Senior Management Responsibilities and Approved Persons	77
	Guy Morton	
	<i>Joint Senior Partner</i>	
	<i>Freshfields Bruckhaus Deringer</i>	
5.1	Introduction	77
5.2	Approved persons regime	79
5.3	Senior management	112
5.4	Proposed reforms	116
5.5	MiFID	119
5.6	Key points	119
6	Market Risk	121
	Wyn Francis	
	<i>Director</i>	
	Jon Holloway	
	<i>Partner, Market Risk Group</i>	
	<i>PricewaterhouseCoopers LLP</i>	
6.1	Introduction	121
6.2	Overview of market risk	122
6.3	Trading book and non-trading book	123
6.4	Market risk regulatory capital requirements	124
6.5	The standard rules	124
6.6	Sensitivity analysis	124
6.7	Use of a CAD 1 model	125
6.8	Use of a CAD 2 model	126
6.9	Conclusion	134

7	Credit Risk	135
	Richard Smith	
	<i>Partner, Financial Services Regulatory Practice</i>	
	Charles Beach	
	<i>Senior Manager, Financial Services Regulatory Practice,</i>	
	Birgit Schalk	
	<i>Executive, Financial Risk Management</i>	
	<i>PricewaterhouseCoopers LLP</i>	
7.1	Introduction	135
7.2	Definitions	137
7.3	Standardised approach	140
7.4	Internal ratings-based approach	157
7.5	Trading Book exposures	190
8	Operational Risk	193
	Charles Beach	
	<i>Senior Manager, Financial Services Regulatory Practice</i>	
	<i>PricewaterhouseCoopers LLP</i>	
8.1	Introduction	193
8.2	Basic indicator approach	197
8.3	The standardised approach ("TSA")	203
8.4	Advanced measurement approach ("AMA")	215
9	Risk Assessment – Liquidity Risk	241
	James Wise	
	<i>Senior Manager</i>	
	<i>PricewaterhouseCoopers LLP</i>	
9.1	Introduction	241
9.2	Overview of the FSA's current approach to liquidity risk	242
9.3	Liquidity risk management policy, controls and systems	243
9.4	Contingency or crisis funding plan	246
9.5	Procedures	247
9.6	Quantitative requirements	247
9.7	The maturity mismatch approach	248
9.8	Sterling stock liquidity	252
9.9	Materiality	254
9.10	Reporting to the FSA	254

10 Prudential Regulation of Banks under the Financial Services and Markets Act 2000	255
Simon Gleeson	
<i>Partner</i>	
<i>Allen & Overy</i>	
10.1 The development of the FSA's Prudential Regime	256
10.2 The forthcoming Basel II regime	257
10.3 Bank groups	258
10.4 The trading/banking book division	259
10.5 The trading book under Basel II	262
10.6 The banking book	262
10.7 The banking book under Basel II	267
10.8 The trading book	269
10.9 Risks common to the trading and banking books	274
10.10 Collateral and netting	280
10.11 Credit derivatives	290
10.12 Definition of capital	293
10.13 Large exposures regulation	296
11 The Authorisation Process	299
Stuart Holman	
<i>Principal, The CCL Partnership LLP</i>	
Alex Shapland	
<i>Partner, PricewaterhouseCoopers LLP</i>	
11.1 Introduction	299
11.2 The need for authorisation	299
11.3 The application pack	300
11.4 Part IV Permission	301
11.5 Threshold conditions	301
11.6 Pre-application meetings	304
11.7 Regulated activities and specified investments	305
11.8 Applicant's responsibility for the application	308
11.9 The application pack	308
11.10 Completion of the FSA application forms	309
11.11 Approved persons	318
11.12 Connected persons, controllers and close links	319
11.13 Submitting the application	321
11.14 The application fee	322
11.15 Processing of the application	322
11.16 Significant developments during the application process	324
11.17 Pre-authorisation meetings	325

11.18	Time limits for processing applications	326
11.19	Withdrawal of the application	326
11.20	Determining the application	326
11.21	Grant of Part IV Permission	330
11.22	Commencement of regulated activities	330
11.23	Ongoing notification obligations	331
12	The Supervision Process	333
	Brian Harte	
	<i>Managing Director and Head of Group Compliance, Europe and Asia, Royal Bank of Canada</i>	
12.1	Introduction	333
12.2	The FSA's supervisory approach	334
12.3	Organisation of the FSA	340
12.4	Regulatory tools	343
12.5	Skilled persons and auditors	349
12.6	Information sharing	351
12.7	Relationship management	353
12.8	Conclusions	356
13	The FSA's Powers of Enforcement	359
	Simon Morris	
	<i>Partner CMS Cameron McKenna</i>	
13.1	Introduction	359
13.2	The FSA's enforcement powers	361
13.3	The FSA's powers to obtain information and to conduct an investigation	362
13.4	The FSA's rules and principles	368
13.5	Criminal offences under the FSMA 2000 and the FSA's criminal powers	369
13.6	The FSA's powers of non-disciplinary enforcement	371
13.7	Enforcement action against approved individuals	379
13.8	The FSA's process for discipline and enforcement	385