

The background of the top section of the page is a photograph of the Washington Monument in Washington, D.C., viewed from across a body of water. The monument is a tall, white, obelisk-shaped structure that stands prominently in the center. The water in the foreground is calm, reflecting the monument and the sky. The sky is a clear, light blue. The overall scene is peaceful and scenic.

London – Washington

Regulatory exchanges across the pond

Financial Services

Dear Rob

You may have noticed from media coverage your side of the pond that, since I last wrote, the UK has gone through some uncharted waters in selecting a new Government, at least based on the previous election.

I start by mentioning this because, from the UK perspective, the introduction of a coalition of Conservatives and Liberal Democrats means that the approach to reforming the Regulatory framework in the UK is likely to be a blend of previously distinct policy manifestos.

Details are still sparse at the moment, other than confirmation that the Bank of England will be given formal powers for macro-prudential supervision while the Financial Services Authority retains responsibility for the micro-prudential supervision, but subject in future to the oversight of the Bank. At the same time, it was announced that a Commission would be established to deliver a report within a year on the pros and cons of legally splitting universal banks into retail and investment banking operations.

Meanwhile, we continue to struggle to keep up with the myriad of regulatory initiatives - Global (G20/Financial Stability Board/Basel Committee), EU-inspired (EU Commission and the Committee of European Banking Supervisors) and FSA sponsored initiatives.

On how far the G20 consensus can be preserved, we have seen, for example, reports that the EU's new financial services chief wants binding rules on pay and does not believe that the President's proposals to limit the size and investments of banks will work in Europe. And the debate on cross-border resolution regimes appears to rumble on.

Contact us

For more information, please contact:

Babak Nikzad

Partner
Shanghai
Tel: +86 (21) 2212 2268
babak.nikzad@kpmg.com

Simon Gleave

Partner
Beijing
Tel: +86 (10) 8508 7007
simon.gleave@kpmg.com

Martin Wardle

Partner
Hong Kong
Tel: +852 2826 7132
martin.wardle@kpmg.com

Jasmine Lee

Partner
Guangzhou
Tel: +86 (20) 3813 7790
jasmine.sy.lee@kpmg.com

While the industry accepts that it will be subject to a much tougher regulatory regime in terms of higher capital and liquidity requirements, the banks argue that the cumulative impact of the proposed new rules could be more damaging to the system than currently acknowledged. In particular, they suggest that the Quantitative Impact Analysis (QIS) being conducted this year to calibrate the plethora of proposed changes may not extend to analysis of the real economy effects, for example their impact on GDP growth, employment and access to debt and capital finance.

What is readily apparent, however, is that time and tide wait for no man! While the processes of QIS and Consultation Papers are still in train, the FSA is already in practice. It is setting higher capital requirements, both in terms of quality and quantity; applying counter cyclical capital requirements through Pillar 2; and has now set out its store in relation to Governance expectations following the Walker Review. The new UK liquidity framework is also moving apace, although the new requirements for higher liquidity buffers will not begin to be applied until the current stressed market conditions ease – so some comfort at least.

Incidentally, two important firsts were achieved here in the last couple of weeks, Chelsea won the double; and England won the Twenty 20 cricket – momentous times all around!

Look forward to receiving your next letter from America.

Yours truly
Keith

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

© 2010 KPMG, a Hong Kong partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

Publication date: August 2010