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18 September 2008

Dear Mr Bell

Disclosure of liquidity support

The CFA Society of the UK (CFA UK) welcomes the opportunity to respond to the FSA's Consultation Paper on Disclosure of liquidity support. As the member body for 7,800 investment professionals CFA UK aims to lead and promote the development of the investment profession in the UK through the promotion of the highest standards of ethical behaviour.

The society is a member-led organisation and one of our principles is to ensure that responses to regulatory changes are informed by member opinion. This is directed by one of our advocacy committees and also where possible through surveys of our membership. Given the importance of the issues raised in the consultation paper the society canvassed its members' views on whether they believed that undisclosed liquidity support to solvent financial institutions may be appropriate from time to time in order to maintain financial stability or whether they believed that the lack of transparency would unacceptably compromise the efficient operation of the markets. (A copy of the survey results, including additional comments is attached.) The survey was completed by 339 members whose views were almost evenly split. A small majority (52%) was opposed to non-disclosure even for wider financial stability considerations. 48% believe that non-disclosure may be appropriate from time to time in order to maintain financial stability.

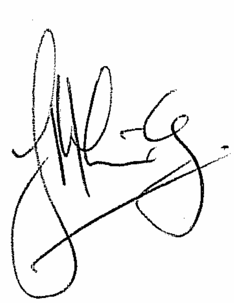
The survey also asked members whether they believed the delay in disclosure of liquidity support would serve the best interests of investors, financial institutions seeking liquidity support, depositors and overall capital market integrity. It is perhaps worth noting that financial institutions were the only category which members thought would be better served by non-disclosure and that this view was held by the overwhelming majority of respondents (82%). Members were of the view that investors and overall capital market integrity would be adversely affected (57% and 53%, respectively). Opinions were equally divided on the impact on depositors.

Judging by the survey results, there is no perfect solution to reconcile the sometimes conflicting aims of transparent and efficient markets and financial stability. Given that a small majority of our members are against the FSA's proposal, the society is not able to support a rule change for the delayed disclosure of liquidity support, although we recognise from the member comments that a number of members acknowledge that in extreme circumstances undisclosed liquidity support may be necessary. If the FSA decides to go down this line, we believe that the information should be made public as soon as possible. As comments to the survey show, it will be difficult to conceal such information for long. For instance, if officers of a financial institution are signing off diligence reports daily, it is hard to see how they would answer open-ended questions from counterparties. If they are later found to have misled the market for an extended period of time, all banks' risk premiums and cost of capital will rise. There is also a real danger that rumours or direct questions from the press are likely to negate what the authorities are trying to achieve. The society, therefore, believes that four and a half months is far too long. We would guess that he markets would work out the true position within two weeks and recommend that this should be the maximum permissible time for non-disclosure of liquidity support. The FSA/Bank of England should also have the authority to refuse to permit non-disclosure when appropriate to ensure that a bank's own commercial interests do not take precedence over the interests of other parties or participants in the financial markets.

As mentioned above, the survey results also show that the only clear beneficiary of the proposed new arrangements would be the bank receiving support. With this in mind, our members are also of the view that undisclosed support should only be provided in extreme circumstance and that institutions should be penalised for receiving such support.

CFA UK is one of the largest member societies of CFA Institute. We understand that CFA Centre for Financial Market Integrity, the advocacy arm of CFA Institute, will be sending the FSA a separate response to this consultation paper.

Yours sincerely



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