



Nigel Fray
Operational & Reporting Policy Team
Permissions, Decisions and Reporting Division
Financial Services Authority
25 The North Colonnade
Canary Wharf
London E14 5HS

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Dear Sir,

The CFA Society of the UK (CFA UK) welcomes the opportunity to comment on the Financial Services Authority's (FSA) consultation paper (10/3) on effective corporate governance. CFA UK has separately commented on proposals elsewhere relating to governance and CFA Institute – of which CFA UK is the UK member society – has also commented widely on the value and need for improved standards of governance.

CFA UK agrees that the events of the financial crisis exposed material shortcomings in the governance and risk management of some regulated firms. CFA UK and CFA Institute support the intent to raise governance standards and regulators' determination to supervise more intensively and effectively. While it is clearly the case that the events of the financial crisis exposed shortcomings in the management of financial firms, it is important also to note that the financial crisis exposed substantial shortcomings in the regulatory supervision of financial firms in the UK and elsewhere.

CFA UK believes that it is appropriate for the FSA to take a more robust approach to supervision of the approved persons regime and welcomes the decision to pay greater attention to the competence and capability of candidates for significant influence functions. Similarly, CFA UK broadly supports the FSA's decision to introduce new, specific controlled functions for key board positions such as chairman, senior independent director and chairmen of the risk, audit and remuneration committees. It is appropriate that additional attention is paid to proposed appointments to these roles in order to ensure that candidates are fully aware of their responsibilities and are capable and competent of carrying them out.

However, CFA UK has two concerns in relation to the proposed approach. First, we can see a danger that those who gain appointment to one of the new roles will be considered to have passed a stringent test. Their authority may be perceived to be greater than before and it may be more difficult for other board members to challenge their views. Secondly, as awareness grows of the criteria on which candidates are selected, firms will adapt their behaviour to select only candidates that meet these criteria. As firms recruit candidates to significant influence functions, there is a danger that these candidates will share similar capabilities and experience and that a herd mentality may prevail. On balance, we support the FSA's decision, but we believe that the FSA should regularly review Board performance to ensure that Board directors challenge reports

from the chairmen of the risk, audit and remuneration committees and to ensure that Board composition is not so drawn from such a narrow pool that groupthink results.

CFA UK supports the proposed transitional arrangements described in chapter 2 and has no comments to make on the proposals in chapter 3 relating to the extension of controlled functions to parent banks or UK branches of EEA banks.

Chapter 4 of CP 10/3 describes the FSA's more intrusive approach to approving and supervising significant influence functions. As previously mentioned, CFA UK believes that it is appropriate for the FSA to place greater emphasis on competence and capability (alongside honesty, reputation and financial soundness) in undertaking fit and proper tests of candidates for significant influence functions. As you state, the assessment of competence and capability will focus on the CV and application form. We would recommend that if such information is not included in either the CV or application form, the reviewing panel should ask candidates for information regarding professional qualifications and/or membership of professional bodies. Similarly, where relevant, it might be appropriate to question candidates on their commitment to continuing professional development. A commitment to continuing professional development may indicate a greater willingness and interest in maintaining and extending both technical and managerial competence.

CFA UK supports attainment of all professional qualifications and adherence to codes of ethics and standards of professional conduct. The majority of the society's members have earned the Chartered Financial Analyst (CFA) designation and attest annually to adhere to CFA Institute's Code of Ethics and Standards of Professional Conduct, while a significant minority passed the Associate examinations of the Institute of Investment Management & Research (a forerunner to CFA UK). Both the CFA and Associate designations denote a high level of technical and professional competence and indicate a commitment to ongoing professional development. We recommend the CFA and Associate designations as valuable indications of competence and capability.

With regard to the FSA's expressed intention to take a more active approach to significant influence function approvals, we are concerned that the FSA's paper provides little information about how this approach will now be consistently applied over time. Panel members and senior advisor representatives will change. How will precedent be built up and judgment applied consistently over time? What mechanisms are in place within the FSA for reviewing the activity level and performance of SIF review panels? It is important that the right processes and structures are put in place now to prevent a reduction of activity as memories of the financial crisis begin to fade. Similarly, panel members involved in approval and supervision should exercise their responsibilities for SIF approvals with consideration of the evolving nature of business infrastructure and risks. Panel members themselves should commit to undertake sufficient professional development in order to exercise appropriate judgment with the recognition that the ideal profile for a candidate may not be a static one.

About CFA UK and CFA Institute

The CFA Society of the UK (CFA UK) represents the interests of more than 8,500 leading members of the UK investment profession. The society, which was founded in 1955, is one of the largest member societies of CFA Institute and is committed to leading the development of the investment profession through the promotion of the highest ethical standards and through the provision of continuing education, advocacy, information and career support on behalf of its members. Most CFA UK members have earned the chartered financial analyst (CFA) designation, or are candidates registered in CFA Institute's CFA Program. Both members and candidates attest to adhere to CFA Institute's Code of Ethics and Standards of Professional Conduct.

CFA Institute is the global association for investment professionals. It administers the CFA and CIPM curriculum and exam programs worldwide; publishes research; conducts professional

development programs; and sets voluntary, ethics-based professional and performance-reporting standards for the investment industry. CFA Institute has more than 99,000 members in 139 countries, of whom more than 88,000 hold the Chartered Financial Analyst® (CFA®) designation.

Yours,

Natalie WinterFrost CFA FIA
Chair
Professional Standards & Market Practices Committee

Will Goodhart
Chief Executive