

COMPETITION IN UK BANKING

The Cruickshank Report

Government response

HM Treasury, August 2000

THE NEW POLICY FRAMEWORK

Recommendation 1

§2.115, p.35

The Government should encourage the FSA in its efforts to make the regulatory process more transparent in the UK. It should also work with the FSA internationally to promote the importance of information disclosure in prudential regulation, for example through the European Union, and the Basel Committee on Banking Supervision.

The Government accepts this recommendation believing that transparency and information disclosure are important elements to an effective regulatory framework. In introducing the Financial Services and Markets Act the Government has put a statutory regime in place which allows and requires transparency and clarity in the work of the Financial Services Authority.

Recommendation 2

§2.124, p.37

The Government should examine the costs and benefits of requiring authorised firms to publish disclosure statements of their risk exposures and risk strategies, across all activities, in advance of the implementation of the new Basel Capital Adequacy framework. The statements should also include details of regulatory requirements such as capital asset ratios.

The Government agrees that disclosure by firms of their risk exposures and strategies can be a useful tool in reducing information asymmetry and promoting financial stability. The issue is under consideration internationally as part of the process of revising the Basel capital accord.

The Government agrees that there would be benefits from disclosure of regulatory capital ratios. For example, their disclosure could reduce information asymmetries and provide market incentives and discipline. And disclosure could make regulatory decision-making more transparent. However, such benefits need to be judged against the disadvantages. For example, disclosure could lead to over-reliance on the FSA's regulatory ratios, substituting them for market judgements. This could impair markets' proper operation. It could also lead to the "down-grading" of a firm by the FSA becoming a self-fulfilling prophecy. Capital ratios are also only one kind of tool from the regulator's kit - regulatory judgement and action might be significantly different in respect of two firms even if they had the same capital ratios.

These issues are being discussed in a range of international fora. The Government, together with the FSA, will review and draw together the many strands of work in this area and aim to publish a report on how progress should be made on this issue by the end of this year.

Recommendation 3

§2.126, p.38

The Government should examine the benefits of introducing a requirement making all lender of last resort operations subject to public disclosure, with a fixed time limit, say one year, after the event.

The Government agrees that all lender of last resort support operations should be disclosed and that disclosure should happen in a timely manner. There will be a presumption in favour of disclosing support in the Bank of England's first annual report following the support operation. If disclosure at that time would be damaging to financial stability or the support operation itself then disclosure would be postponed and the issue re-considered after a further year and, if necessary, in subsequent years until disclosure took place. In disclosing information, those factors which meant that an earlier disclosure would have been unsafe will be explained. It may be possible to safely disclose some items of information before others.

Recommendation 4

§2.135, p.40

The Government should:

- (a) monitor the impact of the FSMA on competition in financial services markets;*
- (b) conduct a formal review, two years after commencement of the legislation.*

The Government accepts these recommendations and is committed to monitoring the impact of the Act on competition in financial services. The scope of the monitoring will not be confined to the work of the FSA. It will, for example, include monitoring of the effects of regulations and policies introduced by Government itself.

The Financial Services and Markets Act introduces for the first time a number of explicitly pro-competitive principles which the FSA must have regard to:

- the desirability of facilitating innovation in connection with regulated activities;
- the need to minimise the adverse effects on competition that may arise from anything done in the discharge of its functions;
- the desirability of facilitating competition between those who are subject to any form of regulation by the FSA.

These principles should ensure that the FSA takes full account of competition issues particularly as the FSA will have to explain why it believes its new rules are compatible with them. Furthermore, the FSA will conduct cost benefit analyses on its new regulatory rules which will include consideration of the effects on competition.

The Financial Services and Markets Act also gives the Office of Fair Trading and Competition Commission central roles in deciding whether new rules distort competition and whether they are justified to protect consumers.

In conducting the formal two year review of the Act, the Government will take account of all relevant material including:

- the competition findings by the FSA in connection with its introduction of rules and guidance;
- the statements on competition effects of Government policies and regulations envisaged in the response to Recommendation 14 below ;
- retrospective analysis of the actual, rather than predicted, effects on competition of FSA and Government measures.

The review will be both objective and expert, investigating the scope for improving Government policies and regulations and FSA rules and guidance as affects competition in financial services markets.

Recommendation 5

§2.136, p.40

In reviewing the operation of the FSMA, the Government should give consideration whether to:

- (a) continue to appoint to the FSA members who are, or recently have been, employed by any of the firms authorised by the FSA;*
- (b) give ministers a general power of direction over the FSA, to be used only in appropriate exceptional circumstances, with all directions subject to public disclosure;*
- (c) restrict the grounds for removal of members of the FSA to ‘incapacity or misbehaviour’;*
- (d) separate the roles of chairman and chief executive of the FSA.*

The Government accepts the recommendation to consider these issues in the two year review. However, these questions were extensively debated during the passage of the Financial Services and Markets Bill through Parliament. Under the provisions of the Act, the FSA is required to have regard to the relevant principles of good corporate governance and the Government has great confidence in the FSA Board as presently structured and constituted.

Recommendation 6

§2.139, p.41

The Government should direct the FSA to assess the following in its annual report:

- (a) the degree of effective competition within financial services markets;*
- (b) the effects of regulation on competition in, and particularly entry into, financial services markets;*
- (c) the direct and indirect costs associated with any distortion to competition which have been estimated in the course of cost benefit analyses;*
- (d) progress towards greater transparency, especially in banking supervision.*

The Government accepts the recommendation to direct the FSA to assess the effects of its activities on competition in future annual reports. The Financial Services and Markets Act will already require reporting on the FSA’s consideration of the general duties relating to competition

referred to in the response to Recommendation 4. Building on this, the direction will require the FSA to include a summary of significant competition implications of new rules and general guidance, and a discussion of the competition effects of its general regulatory activities. It will highlight in particular the pro- and anti-competitive effects, and implications for entry and exit to the financial services industries. The FSA's annual report will also give a general account of developments in regulation and supervision, noting increases in transparency.

On-going information on the effects of the FSA's new rules and guidance on competition will be provided through the analysis required under the Financial Services and Markets Act. Such analyses will include details of the costs and benefits resulting from effects on competition (whether direct or indirect).

Recommendation 7

§2.140, p.42

The Treasury should re-examine its relationship with the FSA, in particular, ensuring its objectives, operations and staffing reflect the fact that the FSA is a regulator independent of government.

The Treasury accepts this recommendation and will conduct a formal review of its relationship with the FSA as part of the two year review of the Financial Services and Markets Act.

Recommendation 8

§2.143, p.42

The Treasury should amend its fourth objective to make clear that its scrutiny of the economy applies to all sectors, including financial services and banking.

The Treasury accepts this recommendation to amend its objectives. The Treasury's objective for financial services has been changed to:

"securing an innovative, fair dealing, competitive and efficient market in financial services, while striking the right balance with regulation in the public interest"

These objectives will also directly feed through to the objectives of individual teams dealing with financial services ensuring that the right balance is struck between competition and regulation.

Recommendation 9

§2.144, p.42

The Treasury should give its competition and regulation team specific responsibilities for examining the Treasury's own initiatives in financial services regulation, and for providing

the Treasury's advice on competition in financial services to external bodies such as the OFT and to interested parties within government.

The Treasury accepts this recommendation. It is intended that all submissions to Ministers on financial services regulation will include a specific statement setting out the impact on competition which will highlight the views of the competition team. Furthermore, the reform of the Treasury's objectives will ensure that all teams and not just the competition team take due account of competition issues in their work.

Recommendation 10

§2.145, p.43

The Government should ensure that the Memorandum of Understanding between the Treasury, Bank of England and FSA reflects the new policy framework.

The Government agrees to keep the Memorandum of Understanding under review to ensure it continues to reflect the new policy framework. It believes that the Memorandum is currently working well in defining the respective responsibilities of the Treasury, Bank of England and the FSA. There is not a need for modification currently but the Government is committed to keeping this under review. It will review the Memorandum as part of the two year review of the Financial Services and Markets Act and in light of legislation in relation to payment systems.

Recommendation 11

§2.164p.46

The Government should, in its reform of merger law, ensure that the proposed new competition based test for assessing mergers takes full account of the desirability of:

- *maintaining and promoting effective competition;*
- *facilitating the entry of new competitors into existing markets;*
- *improving the production of goods and services and promoting technical or economic progress; and,*

so as to ensure that consumers receive a fair share of the benefits.

The Government will set out its proposals for merger reform shortly. The Government proposed in its consultation document last year that the impact on competition (including the scope for new entry and the efficiencies generated by a merger) should be central to the test for assessing mergers¹.

Recommendation 12

§2.165p.47

Until UK merger law is reformed, the Government should:

¹ DTI Mergers: A Consultation Document for Reform August 1999

- (a) *refer all mergers between financial suppliers to the Competition Commission for investigation if the merging entities have material shares of the relevant market, or if each has material shares in related markets from which there is the real possibility that one might enter to compete with the other; and*
- (b) *not approve any merger where the Competition Commission has produced an adverse report unless the merger:*
 - *maintains and promotes effective competition;*
 - *does not reduce the potential for entry of new competitors into existing markets;*
 - *improves the production of goods and services and promotes technical or economic progress.*

so as to ensure that consumers receive a fair share of the benefits.

The Government agrees that the maintenance and promotion of effective competition, including the possibility of new entry, is a key task of the mergers regime and that effective competition is of ultimate benefit to the consumer. These considerations are applied when considering the structure of markets in the financial services sector, as in any other part of the economy.

However assessment of market power is a complex matter. The fact that two entities have a material share of a market does not automatically mean that a merger would have an adverse effect on competition. Much depends on the availability of alternative suppliers, the extent of barriers to entry and the existence of buyer power. Under current arrangements, the Secretary of State will continue to refer bids to the Competition Commission where he believes that they will have an adverse effect on competition, and will form this judgement on advice from the Director General of Fair Trading.

The powers available to the Secretary of State when considering an adverse report from the Competition Commission are directed at remedying the adverse effects which have been identified. The impact of the merger on effective competition, possibilities for market entry, the production of goods and services and technical and economic progress are factors that the Competition Commission would examine in reaching its conclusion.

Recommendation 13

§2.166, p.47

The Government should encourage the European Commission to:

- (a) *deliver a framework for competition scrutiny of proposals brought forward by the European Commission's directorate, responsible for financial services (DGXV); and*
- (b) *expand and accelerate the work of the European Commission's competition directorate, DGIV, in investigating competition concerns in the European banking sector, including state aids.*

The Government accepts this recommendation. It believes it is important to address competition issues at both the UK and European levels. The Government strongly supports the European Commission's Financial Services Action Plan, referred to in the Cruickshank report, in its aim to open up financial services markets to greater competition. Building on the action plan, the

Treasury recently published a paper setting out its proposals for early implementation of the priority measures to deliver a competitive and dynamic single market in financial services as quickly as possible². In addition to the continuing dialogue on the action plan, the Treasury has had constructive discussions with the Commission's directorate responsible for financial services (DG Internal Market) about a number of initiatives that could contribute to delivering the framework for competition scrutiny of proposals.

The Treasury has also had discussions with the Commission's competition directorate about the recommendation in the report that the Commission should expand and accelerate its work in investigating competition concerns in the European banking sector, including state aids. The Government very much supports the Commission's work in this area.

Recommendation 14

§2.169, p.48

The Government should apply competition scrutiny systematically to its policies and regulations in the financial services sector to ensure that they are proportionate and minimise distortions to competition.

The Government accepts this recommendation. The FSA already systematically includes consideration of competition effects in its analysis of changes to rules and general guidance. Key elements of a similar framework within government are likely to include:

- a requirement for cost-benefit analysis to take account of indirect effects on the market and competition as well as more direct costs and benefits. (The approach could be similar to that set out on competition issues in, for example, the FSA's OP3, *Cost-Benefit Analysis in Financial Regulation*, September 1999);
- when developing new policy or regulation, a requirement to consider if alternative approaches would yield the same, or similar, direct cost-benefits, with less adverse effect on competition;
- a requirement to state effects of new policies and regulations on competition (including barriers to entry and exit). This would be part of the Regulatory Impact Assessment of the policy or regulations.

Taxation of financial products is an example of an area where policy can have an effect on competition. If equivalent, or nearly equivalent, products receive different tax treatments, then that reduces consumer choice between them. This damages competition and also can reduce the revenue raised by the tax as consumer choice is influenced more by taxation than by the merits of the underlying products. The Government already works to avoid this outcome - for instance, rather than defining special tax rules for stakeholder pensions, Government has reformed the tax rules for personal pensions so that stakeholder and personal pensions are treated in the same way.

The Government will apply and seek to develop the three principles outlined above, which could also be applicable in areas of policy and regulation beyond financial services, with immediate effect.

² HM Treasury *Completing a Dynamic Single European Financial Services Market: a Catalyst for Economic Prosperity for Citizens and Business Across the EU* July 2000

Recommendation 15

§2.169, p.48

The Government should ensure that banks are not accorded exclusive participation or preferential treatment in the development of government initiatives unless there are legitimate reasons for doing so, having special regard to e-commerce developments.

The Government accepts this recommendation. It agrees that it is important that the Government is not perceived as giving special treatment to financial institutions in the development of government initiatives. It is clear that Departments should take care to involve as broad a range of relevant institutions (within the financial services sector, potential new entrants, other interests) as is feasible and ensure that the process is transparent. The Government has made it clear that a key part of its e-commerce strategy is to make the UK the best place to trade electronically by 2002. It is working with all industry sectors to ensure Government, consumers and firms are in the best position to take advantage of the opportunities presented by e-commerce. There is no exclusive participation or preferential treatment being given to any particular industry.

Recommendation 16

§2.173, p.49

The Government should ensure that the self-regulatory 't-scheme' proposed for approving digital signature suppliers does not distort competition. It should subject all suppliers to the same, objective approval criteria and approvals process and, in particular, not favour suppliers who happen to be regulated for other purposes.

The Government accepts this recommendation agreeing with the need to promote a competitive market for the approval of electronic signatures, and one which does not distort competition. These concerns have been central to the thinking behind the t-scheme.

The t-scheme is an industry led approach by the Alliance for Electronic Business. Government is involved through the interests it has in using the scheme to "approve" providers of electronic government services and the relationship with the Electronic Communications Act. But the Government does not own the scheme.

The Government has set down objectives which the t-scheme needs to meet if Government is to be persuaded not to implement a statutory "approval" scheme as laid out in Part 1 of the Electronic Communications Act. These include that the scheme has to be transparent, non-discriminatory, openly available to all organisations and published. The requirements are also to apply to all organisations that wish to take advantage of the scheme. This takes it beyond the regulatory requirements of the banking or any other sector.

There will be no automatic approval, and no special treatment for organisations that are regulated. However where the criteria for the sector regulator directly match aspects of the t-scheme criteria then this will be taken as evidence of satisfying that aspect. Thus a bank, simply through being such, could not gain automatic approval under the t-scheme. There are many other tests they would have to pass.

The t-scheme is designed so as not to distort competition; it is voluntary in nature and there is no reason why other schemes could not also be set up to approve providers. In addition, it is committed to operate approval schemes efficiently and effectively.

Recommendation 17

§2.178, p.50

The deposit protection scheme should adopt all the exclusions permitted by the Deposit Guarantee Directive.

The Government agrees with the report's objective to minimise the distortions caused by deposit protection and ensure that it is proportionate to the risks. It therefore welcomes the FSA's intention to adopt all the permitted exclusions except for two minor ones concerning certain categories of authorised firms (Credit Unions, Friendly Societies and independent intermediaries) and deposits denominated in non-EEA currencies.

It needs to be borne in mind that there is considerable variation in the ability - even amongst authorised firms - to cope with losses arising from the failure of another firm with which they have significant dealings. The Government agrees with the FSA that there seems no justification for excluding deposits from the scheme simply because of the currency in which they are denominated.

Recommendation 18

§2.180, p.50

The Government should review the definition of financial services for the purposes of VAT, to ensure that there is no discrimination between in house provision by financial suppliers and outsourcing.

The Government agrees that the tax systems should, as far as possible, promote a competitive market in financial services. The Treasury and Customs & Excise will review to what extent the current VAT arrangements for outsourcing are distorting competition in the financial sector. This review will include consultation with financial companies and potential new entrants and will be completed by the time of the Pre-Budget Report. The Government will consider, in the light of the outcome of this review, whether there is a case for change in this area.

Recommendation 19

§2.184, p.51

The Government should ensure that its money laundering requirements are proportionate and minimise distortions to competition and, in particular:

- (a) *reassess the requirement that customers opening an account by a non face to face method should provide four separate pieces of identification;*
- (b) *investigate the scope for one financial supplier to verify the identity of an individual to another;*
- (c) *examine the role of new technological developments, such as digital signatures, in providing alternative means of identification;*
- (d) *subject its new proposals to a rigorous cost benefit analysis, including both the direct and indirect costs on competition.*

The Government accepts all of these recommendations. The FSA is addressing the first three in its ongoing money laundering rules project, detailed in its consultation paper, *Money laundering: the FSA's new role*, published in April. The Government awaits the outcome of this project with interest.

The Treasury have also had separate discussions with the industry to explore alternative means of establishing identity that would reduce the costs for industry without undermining the fight against money laundering. Part of these discussions concern the potential savings that might arise from new technologies and innovations. The Government is committed to ensuring that any new EU regulations permit full exploitation of new technologies where these are consistent with the effective control of money laundering.

Regarding recommendation (d), it is a requirement already that new regulations be subject to a full regulatory impact assessment that consider the likely costs against potential benefits. The Government is committed to ensuring that any new money laundering proposals consider the potential impact upon competition.

Finally, the Government notes the FSA's response on the matter of potential financial exclusion. The Government welcomes the approach adopted by the FSA, and takes this opportunity to reiterate to the banking industry that nothing in the Money Laundering Regulations 1993 prohibits a flexible approach being taken to the identification of those people who may not have the more common forms of identification. The Government has discussed with the industry means of ensuring that banks and other financial institutions take full advantage of this flexibility. As well as drawing up a new guidance leaflet on this issue, the industry has agreed to reflect the Government's concerns on financial exclusion in the next version of its guidelines on money laundering.

Recommendation 20

§2.185, p.51

The Government should ensure that the FSA uses its powers under the FSMA to assume full responsibility for both the rules and guidelines on money laundering.

The Government agrees with the report that it is important to ensure that the money laundering rules and guidelines do not unnecessarily distort competition. However, the FSA has set out in its response why it believes it would be unwise for it to take on the role of issuing detailed guidance on the money laundering regulations. The Government recognises that there might be fundamental legal difficulties in the FSA becoming responsible for issuing guidelines on this matter of criminal law.

The Government welcomes the fact that the Joint Money Laundering Steering Group remains committed to consulting with both the Treasury and the FSA on its guidelines. The Government believes that whilst this allows a close watch to be kept on the requirements set out in the guidelines, transparency could be increased further. It will therefore examine what scope there is to open up this consultation to a wider audience and ensure that the drafting of the guidelines is subject to public scrutiny. The Government also notes that industry codes of practice, such as the guidance notes, may fall to be considered under the provisions of the Competition Act 1998. Such considerations should help ensure that the authors of the guidelines do not take advantage of the money laundering system to hinder competitive forces in the financial services sector.

MONEY TRANSMISSION

Recommendations 21, 22 & 23

§3.186, p.94 & §3.204, p.97

The Government should establish a licensing regime to regulate competition in payments markets. This regime should have the following features:

- (a) Participation in payment systems should be a licensed activity. All participants in payment systems would be subject to a class licence, written by the Treasury;*
- (b) A legal person should be granted effective powers to monitor compliance with the class licence and to impose sanctions. The sanctions should be in line with those contained in the Utilities Bill, currently before Parliament;*
- (c) There should be a process of appeal.*

The Government should put in place licence conditions to secure the following outcomes:

- (a) Price transparency;*
- (b) Good governance;*
- (c) Non-discriminatory access;*
- (d) Efficient wholesale pricing;*
- (e) Fair trading.*

The Government should bring forward legislation to establish a payments systems commission (PayCom), charged with supervision of the payment system licensing regime. It should be independent of the competition authorities, other regulatory commissions, and of the industry.

The Government welcomes these recommendations and is determined to tackle the competition concerns in this area. Following the publication of the report, the Chancellor confirmed in the Budget that the Government will:

- legislate to open up access to payment systems and to oversee access charges;
- expect banks, in the mean time, to increase transparency in their charging, base charges on the economic cost of providing services, and to open up money transmission systems to new entrants;
- explore with the Office of Fair Trading what measures can be taken within existing powers.

The Government is attracted by the report's recommendation to establish a licensing regime for payment systems and is committed to the introduction of primary legislation. However, it recognises the complexity of the issues involved in legislating and will need to address a number of issues in bringing forward proposals:

- the precise scope of any licensing regime;
- the interaction with UK and European competition law;
- the interaction with banking supervision and issues of financial stability at the UK and European levels;

- the Government's international obligations and its support of free trade.

The benefits of a class licence regime along the lines the report proposed are that it would not require individual market participants to apply for a licence nor would it require an authorisation process to be put in place. This would avoid the introduction of new barriers to entry. Instead, those organisations which fell within the scope of the licensing regime would automatically be covered by the terms of the class licence. Also, under a class licence regime, the emphasis could be placed on market participants reaching commercial agreement on access to systems and associated charges with intervention only necessary where deadlock was reached. However, the Government has yet to reach a final decision on such matters and is committed to widespread consultation on these issues. The objective is to create a regulatory framework to foster competition which is sufficiently robust to tackle the competition concerns, but not so onerous that it stifles innovation or discourages companies from entering the market to provide payment services.

The Treasury has already sought the views of over 40 organisations on the report's recommendations to establish a licensing regime. Discussions have taken place with a wide range of market players and also with the Bank of England, the Department of Trade and Industry, the Financial Services Authority and the OFT. The Government intends to bring forward more detailed proposals for consultation in the Autumn.

In some parts of the industry, the publication of the report has already produced a change in behaviour. For example, LINK has decided to open up its network connecting automated teller machines to non-bank ATM providers with five such providers recently being admitted. This is a welcome development, especially as such providers are interested in providing ATMs in a more diverse range of locations. LINK has also banned double charging and reformed its wholesale charging structures. Moreover, competition is developing in regard to cash machine charges. The Government welcomes such competition, believing that it is the key to giving consumers effective choice and innovative services at a fair price.

The Association of Payment Services, APACS, has told the Government that it will review the current linkage between the full membership and ownership of the principal payment clearing systems and that it will also be re-examining the annual volume thresholds for direct access to those systems. Whilst the Government welcomes such steps it is disappointed that a wider review of the membership criteria for these schemes, such as the requirement to be an authorised credit institution, has not been launched.

Other parts of the industry have failed to respond to the report. The Government hopes that they will make progress on their own, but in the meantime, the Government has had discussions with the Office of Fair Trading about what measures can be taken under existing legislation. The OFT is reviewing the LINK and MasterCard schemes in the UK following formal notifications under the provisions of the Competition Act 1998. It is also considering what action, if any, it may take in relation to the other payment schemes.

Recommendation 24

§3.221, p.101

The Government should ensure that it does not unnecessarily stifle competition by restricting access to UK payment systems, either through its direct regulatory activities or in negotiating international agreements with other Member States.

The Government accepts this recommendation. Its scrutiny of policies and regulations regarding access to UK payment systems, both in respect of its direct and other domestic regulatory activities, and in negotiating international agreements with other Member States will follow the clear framework set out under Recommendation 14 above with immediate effect.

Recommendation 25

§3.224, p.102

The Government should develop a strategy for acting as an intelligent consumer of payment services across all of its functions. The Office of Government Commerce should be responsible for monitoring performance.

The Government accepts the recommendation to develop a payments strategy. There will be many benefits in adopting a co-ordinated approach to these issues particularly in relation to e-commerce and the Modernising Government agenda. However, the Office of Government Commerce's role is currently focussed on ensuring that government departments adopt efficient methods of payments to suppliers rather than on the relationship between government and citizens.

The Treasury believes that there are a range of government agencies and departments which have an interest in these matters, not least the Office of the e-Envoy. It is committed to involving all these parties and will decide by the Autumn on the best mechanism for developing a government payments strategy.

BANKING SERVICES FOR PERSONAL RETAIL CONSUMERS

Recommendation 26

§4.106p.135

The Government should announce an intention not to designate the supply of personal banking services as regulated activities under the provisions of the FSMB.

The Government agrees that the case for regulating banking products, other than residential mortgages, is weak. It has no intentions to extend the regulatory scope of the Financial Services and Markets Act.

Recommendation 27

§4.106, p.135

The Government should, in the near future, publish objective and proportionate criteria for determining whether particular banking products should, in exceptional circumstances, be designated as regulated activities. These criteria should be used to evaluate any future demands for regulation. In its review of the operation of the FSMA the Government should reappraise its decision to designate the sale of mortgages as a regulated activity, against these criteria.

The Government agrees that there should be clear criteria for deciding whether the FSA should have responsibility for regulating banking products. The criteria for banking products are essentially the same as those for other financial products and were discussed extensively during the passage of the Financial Services and Markets Bill through Parliament. The evaluation required is:

- establishing the extent and scale of consumer detriment;
- determining whether regulation could reduce that detriment;
- assessing whether the cost of regulation would be proportionate to the likely benefit to consumers.

This objective and proportionate approach underlay the recent decision on mortgages. The Government's proposed approach applies a light touch by proposing a regulatory regime focussing on improving transparency and disclosure for prospective borrowers before they make any commitment to a loan. The Government will monitor how this regime works out in practice, and accepts the recommendation to review the situation after two years of operation.

The FSA takes a complementary approach to regulation, as it set out in *A New Regulator for the New Millennium*. That approach can be summarised as selecting from a complete toolkit, a tool that is most appropriate to the problem that requires to be fixed.

Recommendation 28

§4.110 p.136

In its review of the operation of the FSMA the Government should consider establishing an independent Financial Services Consumer Council covering all financial services, not just those which are supplied in the course of carrying on activities regulated by the FSA.

The Government accepts this recommendation. It believes an effective consumer voice is vital to inform the work of the FSA. It believes there are real advantages to the current structure which allows the current Consumer Panel, because of its close links, to work with the FSA to influence the development of its policy. However, it would be sensible to consider this issue as part of the two year review of the Financial Services and Markets Act.

Recommendation 29

§4.112, p.136

The Government should ensure that the rules of the new Financial Services Ombudsman Scheme specify that the Ombudsman will draw up consumer guidelines, after consultation with interested parties, including consumers, the OFT, the FSA and the industry. The Ombudsman should then use these guidelines to determine whether a banking supplier's actions are 'fair and reasonable'.

The Government agrees that the service standards which customers can expect to enjoy - and be upheld by the Ombudsman - should deliver real benefits. However, as the FSA's response notes, the Ombudsman is primarily a dispute resolver, rather than a standard setter or regulator. But it can - as existing Ombudsmen already have - make determinations on fairness and reasonableness, which in practice would become new standards. The BBA has told the Government that it sees a continuing role for less formal, less prescriptive guidance from the Ombudsman, for example on points of interpretation and in the form of reports of significant cases he has dealt with. The Government would welcome this but shares the FSA's concern that giving the Ombudsman a more specific regulatory role could lead to the introduction of conduct of business regulations without the accountability and cost benefit analysis checks required of the FSA.

Nonetheless, the Cruickshank report raised serious concerns about whether current self regulatory approaches, such as the Banking Code, were delivering real benefits to consumers. The Government welcomes the steps the industry has taken to improve compliance with the Code and in particular the independent scrutiny recently introduced by the Banking Code Standards Board. However, the first survey by the Board found worryingly low levels of compliance on some of the key aspects of the Code especially in relation to the disclosure of information to consumers³. The Government therefore intends to conduct a fundamental review on whether the codes, such as the Banking Code, are delivering sufficiently strong benefits to consumers. It will establish a small review group of 5-7 members with representatives from consumer groups, the industry and other affected parties. The terms of reference would be to examine:

- whether the voluntary codes are delivering sufficiently strong benefits to consumers;

³ Banking Code Standards Board *Mystery Shopping Summary of Key Findings Prepared By: NOP Mystery Shopping* May 2000

- what scope there is to introduce greater independence and consumer representation in the drawing up of codes;
- what role there is for the Ombudsman in influencing or determining standards for consumers;
- whether greater information disclosure can be achieved without the need for further regulation.

The review group will be asked to report by the end of the year.

Recommendation 30

§4.113, p.136

The consumer guidelines set by the Ombudsman should, where necessary, include disclosure requirements for all banking services. Given the particular information problems the Review has identified, the Review recommends that the requirements for disclosure should, among other things, include:

- (a) *redemption penalties on mortgages and loans, which should be clearly expressed to the consumer in monetary terms at the time of purchasing the loan;*
- (b) *information relating to credit card statements, which should state clearly that if the account is not fully cleared interest will be charged on the total value of the statement, not just the outstanding balance; and that interest payments increase the longer payment is delayed (even before the monthly payment date). Statements should also make clear that interest will be charged on a daily basis, and show actual daily and equivalent yearly interest rates. Finally, the front of all credit card statements should state the amount of interest payable if the minimum payment is received on the last day for payment;*
- (c) *standards of service for switching current account supplier.*

The Government accepts the need to address the particular information problems identified in the report. It is firmly committed to empowering consumers of financial products and services to choose better products for themselves. Providing consumers with better and clearer information will help them to understand what they are buying.

The Government agrees with the report that redemption penalties on mortgages and loans should be clearly expressed to the consumer in cash terms at the time of purchasing the loan. It believes that one option would be a requirement for disclosure at the point of sale to compare a mortgage offer with a CAT standard mortgage. This would automatically bring out redemption charges clearly in cash. From Q3 2001, the FSA will have responsibility for regulating mortgage lending. The regime will major on disclosure, including at the point of sale. The FSA plans to consult on its high level policy on mortgage regulation later in the summer alongside the Treasury's consultation on the definition of mortgages.

In the meantime:

- the Mortgage Code Compliance Board is increasing its activity to ensure fuller compliance with the existing rules;
- the Council of Mortgage Lenders (CML) is revising the Mortgage Code to take account of the changing relationship between lenders and the FSA;

- the CML is considering an interim disclosure regime to help improve the information available both before and at the point of sale.

The Government also agrees that there is a need for better information disclosure in relation to credit cards. The British Bankers Association and the Building Societies Association have told the Government that they intend to deal with these issues in the new edition of the Banking Code. This will ensure that credit card statements should state clearly that if the account is not fully cleared interest will be charged on the total value of the statement, not just the outstanding balance; and that interest payments increase the longer payment is delayed (even before the monthly payment date). Statements should also make clear that interest will be charged on a daily basis, and show actual equivalent monthly and yearly interest rates. In addition, by the end of next year, all statements will show a representative cash figure for the interest payable on the account if the statement is not paid off in full.

The Government also intends to highlight the importance of these issues through introducing a new CAT standard for personal credit cards which will emphasise the importance of proper information disclosure and set a benchmark for the industry to meet.

The Government welcomes the fact that following a pilot scheme on current account switching the industry is working towards an automated process for switching direct debits and standing orders to be available to all customers by the end of 2001. In the meantime, the Banking Code now includes a provision to require the donor bank or building society to cooperate with the recipient to ensure a smooth transfer. The Government looks to the industry to introduce specific standards of service to underpin this account switching process and to extend it to deal with automated credits. Such automated payments will become increasingly common as customers adopt electronic payment methods.

Generally, much information is already widely available on interest rates, charging arrangements and other features from statements, initial contracts or the terms and conditions of use. But this information is not always transparent, or presented in such a form as to be readily understood or compared with other products. In any case, the point at which a potential customer really needs to be able to compare terms and features is when choosing amongst competing products. Such information should become available through the FSA's work on comparative information for financial services. It recently confirmed its intention to go ahead with comparative tables - initially for personal pensions, a number of other investment products, and mortgages⁴.

The FSA's response to the Cruickshank report sets out its willingness to extend these comparative tables to cover all those financial products and markets for which there is an identified need. The Government welcomes the FSA's intention to build on the scope of the tables in the light of experience.

Recommendation 31

§4.115, p.137

The Government should ensure that the new Financial Services Ombudsman Scheme allows voluntary membership to firms offering banking services to UK consumers, by whatever means, from outside the UK.

⁴ FSA Response to Consultation Paper 28: Comparative Information for Financial Services June 2000

The Government agrees that in a world of increasing trans-border financial services, particularly through e-commerce, it is vital for UK consumers to have effective means of redress. However, it notes the FSA's view that there are significant practical difficulties to allowing voluntary access to the Financial Services Ombudsman Scheme to firms offering banking services to UK consumers from outside the UK.

The Government believes the way forward is not to introduce UK specific solutions but that progress will be more successful if the EU moves forward on the basis of mutual recognition - a model which is already well established for the prudential regulation of financial services. The Treasury's recent paper on *Completing A Dynamic Single European Financial Services Market*, referred to under Recommendation 13 above, set out the building blocks necessary for the development of mutual recognition:

- "home state" (or country of origin) regulation combined with mutual recognition;
- agreement where necessary on a framework of core standards for conduct of business and consumer protection rules;
- development of effective, cross-border consumer redress mechanisms;
- better informed consumers.

The paper sets out in detail how each of these building blocks can be delivered.

Recommendation 32

§4.121, p.138

The Government should introduce 'benchmarks' for a wide range of personal consumer products to facilitate price comparisons. Unlike the current CAT standards, these benchmarks should not specify price caps.

The Government agrees that benchmarks can have a useful role to play in many markets. The Government has pioneered the use of such benchmarks and minimum standards across a range of personal financial products - Individual Savings Accounts (ISAs), mortgages and stakeholder pensions.

The CAT standards introduced to-date have all featured price guidelines of one kind or another. The evidence suggests that challenging the market to deliver specific priced outputs can be valuable. For example, on stakeholder pensions, the upper limit of 1% has driven prices for all private pension products down and encouraged competition to get below the limit. These indications, however, are no substitute for firmer evidence. This is why the Treasury has commissioned a research study from external consultants, into how the CAT standards are impacting the ISA market. This is due to report in early Autumn by which time the impact of CAT standards in the mortgage market should also be clearer.

In light of these developments, the Treasury intends to consult widely later in the Autumn on the use of benchmarks within financial services with a view to reaching final decisions by Spring next year. The issues for consultation will include questions on the types of benchmarks, the role which price indicators might play, the degree to which different types of benchmark might be appropriate to different types of products and how these benchmarks might be promulgated. It

will set out the Government's proposals for a CAT standard for personal credit cards as referred to in Recommendation 30.

Recommendation 33

§4.124, p.139

In its review of the operation of the FSMA, the Government should consider giving robust legal powers to the FSA to require information from suppliers of retail financial services, including information relating to those services which are not supplied in the course of carrying on regulated activities for the purpose of publication for the benefit of consumers.

The Government accepts this recommendation. It welcomes the FSA proposal to introduce targeted comparative tables, and to proceed initially on a voluntary basis with the possibility of moving to a rule-based system if the voluntary approach is unsuccessful. The Government expects that firms will wish to assist the FSA in this work. This is one of the factors the Government will take account of in its consideration of these issues as part of the two year review of the Financial Services and Markets Act.

Recommendation 34

§4.124, p.139

The FSA should publish comparative tables which, among other things:

- (a) rank all benchmark services by supplier, according to price;*
- (b) group non benchmark services into categories and rank these according to price, highlighting any material differences between services.*

The Government agrees with the report's conclusions on the importance of comparative tables. However, ranking complex products or services makes most sense when a single factor exists to judge them by. Where there are several different factors to assess, ranked information could be less helpful or even misleading. There is a risk, as the FSA's response notes, that ranked information could be thought to imply an FSA endorsement of a particular firm's product, which may not be the most suitable for all consumers.

The Government supports the FSA's preference for providing a range of information on a number of aspects of different products without specific ranking. However, it also welcomes the fact that as this information will be available over the Internet, users will be able to customise it for their own purposes. For instance, they will be able to rank products by whichever aspect is most relevant to them, including by price. Users who do not have access to the Internet will be able to order comparable printouts over the telephone from the FSA.

Recommendation 35

§4.125, p.139

The FSA should compile and publish comparative tables of, among other things, the number of complaints:

- (a) received from personal customers by individual firms;*
- (b) received by the Ombudsman about individual firms;*
- (c) upheld by the Ombudsman against individual firms, including the total value of settlements made against each firm.*

The Government agrees that there are considerable merits in publishing comparative tables of complaints allowing consumers to compare firms and acting as an incentive for firms to improve their levels of service. It therefore welcomes the FSA's intention to move forward with this.

Recommendation 36

§4.126, p.139 & §7.22, p.187

The FSA should rebalance the resources it devotes to consumer awareness, to give more attention to the information problems experienced by people on low incomes, especially those currently excluded from banking services.

The Government agrees that it is important for the FSA to address the information problem experienced by the financially excluded. It has given the FSA a clear statutory objective to promote financial awareness, and the FSA has put in place a wide variety of services and initiatives to meet that. The Government believes it is important that the FSA's consumer awareness work should continue to be funded at a sufficient level to meet that objective.

Recommendation 37

§4.127, p.140

The Government should encourage the FSA in its promotion of financial awareness amongst the population. Such promotion should provide consumers with a means of making informed choices about allocating their finances between different types of financial services and different suppliers.

The Government accepts this recommendation believing that the promotion of financial awareness is one of the key tasks of the FSA. That is why the Government has made this one of the FSA's four statutory objectives. The Government welcomes the fact that the FSA has created a new Managing Director post in this area. The FSA has said that the post will bring a stronger focus on retail regulation and consumer education to Board discussions. This is welcome.

In addition the Government has a wide range of other initiatives to promote a better understanding of money amongst children and young people and to promote adult numeracy. For example, the Adult Financial Literacy Advisory Group (AdFLAG) will report to the Secretary of State for Education and Employment on his plans to improve access and advice to people in the most deprived areas. AdFLAG will target the two million adults who have no access to, or do not use, financial services.

BANKING SERVICES AND EXTERNAL FINANCE FOR SMES

Recommendation 38

§5.80, p.163

The Secretary of State should exercise his powers under section 51(1)(b) of the Fair Trading Act 1973 to refer the matter of the existence, or possible existence, of a complex monopoly situation in relation to the supply of money transmission services and other related banking services (including the provision of debt and savings services) to small and medium sized business in the UK.

The Government accepted this recommendation on the day of publication of the report. The Chancellor and the Secretary of State for Trade and Industry made a joint reference to the Competition Commission of the provision of banking services by clearing banks to small and medium sized firms in the UK.

The Commission's investigation has now been going on for four months and is examining whether a complex monopoly exists and if so whether it is being exploited and whether it operates against the public interest. The former members of the Banking Review, including Don Cruickshank, have given formal evidence to the Commission as have a number of other interested parties. The Commission has been asked to report by June 2001.

Recommendation 39

§5.89, p.164

The Government should publish the Comprehensive Business Register as soon as possible and it should include: location of business, sector, date the business began trading, turnover, VAT record.

The Government accepts the concept of a Comprehensive Business Register that draws on sources of information in various government agencies. It has asked the Office for National Statistics (ONS) to co-ordinate an inter-departmental project to develop matching procedures so that the Comprehensive Business Directory can draw upon sources such as those in Inland Revenue and HM Customs and Excise. It has also asked the ONS to consult and come forward with proposals for an appropriate legal framework by March 2001, which would provide powers to the respective Departments to share, and, in some cases make more widely available, defined information for authorised purposes, in ways that would not infringe upon the confidentiality of information provided by businesses.

Recommendation 40

§5.92, p.165

The Government should ensure that small business access to the Financial Services Ombudsman Scheme is not restricted by imposing a limit on the number of staff employed by the business.

The Government accepts this recommendation and welcomes the FSA's decision not to include a test based on the number of employees, but to have a single turnover test for access to the Scheme.

Recommendation 41

§5.93, p.165

The Government should ensure that the turnover limit for determining small business access to the Financial Services Ombudsman Scheme is at least £5 million.

The Government welcomes the FSA's commitment to review this issue two years after the new legislation comes into force. It recognises the considerations which have led the FSA to define a small business, for the purpose of access to the Financial Services Ombudsman Scheme, as having a turnover of less than £1 million. The FSA has had to strike a difficult balance between those who favour a higher limit and those who - like the Joint Committee of both Houses of Parliament looking at the then Financial Services and Markets Bill - were opposed to any access to the Scheme for small firms. The removal of any restriction on access by reference to employee numbers means that all businesses that do not exceed this turnover limit will have access to the Scheme.

Recommendations 42 & 43

§5.94, p.166 & §5.95, p.166

The Government should ensure that the rules of the new Financial Services Ombudsman Scheme specify that the Ombudsman will draw up small business guidelines after consultation with interested parties, including small businesses, the OFT, the FSA and the industry. The Ombudsman should then use these guidelines to determine whether a banking supplier's actions are 'fair and reasonable'.

The small business guidelines should, where necessary, include disclosure requirements for banking services. Given the particular information problems the Review has identified, the Review recommends that the requirements for disclosure should include:

- (a) *agreed margins and the basis on which interest payments are calculated in all bank statements. This should make explicit the average cleared balance; and APRs should always be stated so that rates are comparable;*
- (b) *standards of service for switching current account supplier.*

The Government accepts the importance of information disclosure to all consumers including small businesses. However, the same considerations apply to the Ombudsman's role in this area as they do in the personal retail market.

The FSA suggests that the specific problems identified in the report are best addressed through industry codes. The Government welcomes the fact that the industry is committed to introducing a Banking Code for small businesses. The BBA have told the Government that this will be based on the existing Code for personal customers, containing most of the same provisions but encompassing the necessary changes to make it more suitable to small businesses. The new Code is due to be launched early in 2001. Nonetheless, the Government has concerns whether

voluntary codes deliver sufficiently strong benefits to consumers. It will therefore include small business banking issues within the terms of the review set out under Recommendation 29.

The industry is commissioning specific research to establish the level of understanding and priorities of businesses in relation to information on interest rates and charges with a view to developing specific standards. The Government has been told that this work should be completed in the Autumn so that the findings can be incorporated into the new Business Banking Code.

Furthermore, many of the competition issues in the small business market will be examined by the Competition Commission in its inquiry into the supply of banking services to small businesses. It will be free to make recommendations in this area should it reach an adverse finding.

Recommendation 44

§5.97, p.166

The FSA should rebalance the resources it devotes on consumer awareness, to give more attention to the information problems experienced by SMEs.

The Government agrees with the report on the importance of consumer awareness. The evidence of past regulatory failures shows clearly that financial consumers' best defence is looking out for their own interests - something which too few feel comfortable to do. Better informed consumers are also better placed to avoid being misled.

These basic facts apply to all non-professional financial consumers, whether they are small businesses or personal customers. The needs of small businesses are, however, rather different since the services and products they purchase are often tailored to their specific needs.

It is for FSA to judge how far its resources permit it to cater for the needs of SMEs. Given the scale of the FSA's consumer education remit, there may be value in making progress with developing techniques for personal customers initially, where the need is arguably most stark. Nonetheless, the Government hopes that the FSA will continue to keep the balance of its resource commitment in this area under review in the light of experience and encourages it to ensure that the needs of small businesses are not neglected.

Recommendation 45

§5.96, p.166

The FSA should publish comparative tables for small businesses which, among other things:

- (a) rank SME current account services (at standard tariff and a range of negotiated prices) according to price;*
- (b) show prices and terms for relevant geographic markets and not just on a UK-wide basis.*

The Government welcomes the FSA's commitment to consider whether banking services used by SMEs should be included in the scope of their comparative tables in due course. In addition,

the BBA has told the Government that it is working on a project to facilitate the publication of comparison tables for bank charges. It is looking at this issue together with small business representative bodies and hopes to have completed an initial scoping exercise by the end of the summer.

Recommendation 46

§5.99, p.167

The FSA should compile and publish comparative tables of, among other things, the number of complaints:

- (a) received from small businesses by individual firms;*
- (b) received by the Ombudsman from small businesses about individual firms;*
- (c) upheld by the Ombudsman against individual firms including the total value of settlements made against each firm.*

The Government agrees that there are considerable merits in publishing comparative tables of complaints. It therefore welcomes the FSA's commitment to consider whether the publication of information on complaints by small businesses should be included in its work on comparative tables.

CHAPTER 6: MARKET FAILURE IN THE PROVISION OF EQUITY TO SMES

Recommendations 47 & 48

§6.45, p.179 & §6.46, p.179

The Government should progressively switch financial support from the SFLGS towards a greatly enlarged venture capital fund (VCF) programme. This should be put on a permanent financial footing.

The Government should examine all of its current and proposed policy interventions that are inappropriately focused on debt, such as bank finance for knowledge based businesses, with a view to redirecting the resources to equity support for SMEs.

The Government agrees that there remain substantial weaknesses in the market for small scale risk capital in the UK (the so called "equity gap") and that these weaknesses should be addressed primarily through significantly enhancing support for its venture capital fund programme.

In recognition of the need for further public investment to develop this market, the Chancellor announced in Budget 2000 a further £100 million of public resources which should lever in substantial additional private sector investments, with the aim of creating a £1 billion target umbrella fund (including the nearly £500 million of public private venture funds already under development). This enlarged programme will be run by the Small Business Service with a new Small Business Investment Taskforce working closely in partnership with the Regional Development Agencies. The Taskforce, composed of those experienced in enterprise finance will actively guide the development and implementation of this programme. In each case, individual investments in smaller growing companies will be made by experienced private sector managers seeking commercial investment returns.

The Government will consider the report's recommendation on switching resources from the DTI's Small Firm Loan Guarantee Scheme as part of its periodic reviews of this measure. David Irlwin, Chief Executive of the Small Business Service, will be examining this area closely, with the help of the new Small Business Investment Taskforce, and will consider ways in which the overall SME financial support provided by the Small Business Service might be improved. But the Government has no plans at present to withdraw the SFLGS.

The Government has no plans to take forward suggestions for policy interventions focussed solely on debt finance for knowledge based businesses. The DTI's Small Business Service will seek the early views of the new Small Business Investment Taskforce and will consult widely on the specific debt and equity financing needs of smaller knowledge based businesses, as part of its review of the funding needs of smaller businesses.

The Government believes that policy intervention on debt finance to small firms remains appropriate to help those firms which operate against a background of social exclusion and deprivation which would otherwise make it difficult to access finance. The DTI's Small Business Service is developing a number of measures under the Phoenix Fund, including the provision of loan guarantee support for Community Finance Initiatives in particular deprived communities. To complement this, the Government is also supporting the work of the new Social Investment Taskforce which is currently considering a new strategic framework for social and community investment. This will include examining tax incentives for investing in community development projects and social enterprises; a permanent investment fund to support a regular wave of new

projects; and how to target more resources in venture capital funds at high unemployment areas. The Social Investment Taskforce will report to the Chancellor by the Pre-Budget Report this Autumn.

Recommendation 49

§6.48, p.180

The Government should significantly enlarge the RVCF scheme and make it a permanent feature of support for SME financing.

- (a) *VCFs should operate on as commercial a basis as possible, and so offer strong incentives to attract growth firms.*
- (b) *VCFs should have to satisfy strict quality and financial probity tests, focused on relevant venture capital and specific sector knowledge and experience.*
- (c) *The scheme must be run by experienced venture capitalists, free to recruit and motivate a talented team, and operate to a framework legal contract negotiated with the DTI.*

The Government agrees with the report in the importance of the RVCF scheme and accepts its recommendation that RVCFs should be run on a clearly commercial basis. The DTI Small Business Service's guidance for establishing Regional Venture Capital Funds under their programme specifies that all RVCFs seeking support from the DTI's Enterprise Fund should be commercially focussed, driven by the requirements of the private sector investors in such funds⁵. The objective of the programme is to demonstrate that robust commercial returns can be made from investing in the "equity gap". To achieve this the Government is seeking proposals to create commercially viable funds across the English regions with the minimum level of public support relative to private sector contributions. The Small Business Investment Taskforce will be closely involved in assessing the commercial viability of each of the RVCFs seeking DTI support.

On point (b), the DTI Small Business Service's guidance specifies that RVCFs should be managed by experienced fund managers with appropriate Financial Services Authority authorisations and a successful track record of investing in the "equity gap". Sponsors of RVCFs will have to appoint fund managers by competitive tender and demonstrate robust systems for ensuring compliance with the terms of the RVCF programme and for monitoring and reporting on performance.

On point (c), the Government considers that the management of the RVCF programme should be centred on the Small Business Service. In recognition, though, of the need to bring in additional private sector finance skills to help develop the public private partnership model, the SBS will be seeking an experienced business finance expert to head its investment division. The SBS will also draw on the private sector expertise of those senior venture capitalists, entrepreneurs, bankers and Regional Development Agency directors who serve on the new Small Business Investment Taskforce. The SBS will not be involved, however, in the individual investment decisions of the private sector funds which SBS supports: this will remain the responsibility of each private sector fund manager responsible for investing the fund's capital.

Recommendation 50

§6.50, p.180

⁵ DTI *Addressing the SME Equity Gap: Guidance for Regional Sponsors proposing to stimulate the creation of Regional Venture Capital Funds* December 1999

The Government should consider privatising the stakes which it will build up in VCFs.

The Government accepts this recommendation. It will consider all the options, including privatisation, for managing the assets which will accumulate in the form of investments in a series of Venture Capital Funds.

Recommendation 51

§6.52, p.181

The Government should make further moves towards a low, simple, CGT regime.

The Government accepts the benefits of simple taxation and keeps all taxes under constant review. The changes in Budget 2000 mean that, following a transitional period, capital gains from all business assets held for 4 years or more will be taxed only at the low rate of 10%.

Recommendation 52

§6.58, p.182

The Government should ensure that there is in place a procompetitive listing regime, consistent with governing EC directives. This should provide a minimum level of statutory regulation and so enable exchanges to compete on the type and degree of market regulation they impose for commercial reasons.

The Government accepts this recommendation agreeing with the importance of ensuring a procompetitive listing regime. Indeed, the necessary framework has been put in place through the Financial Services and Markets Act which will require the FSA, as the new listing authority, to have regard to the desirability of facilitating competition and the need to minimise the adverse effects on competition in carrying out its functions. The FSA will be reviewing the Listing Rules and in doing so will also want to ensure there is a minimum level of investor protection.

THE PROVISION OF A BASIC BANKING SERVICE

Recommendation 53

§7.23 p.187

The Government should give top priority to developing a benchmark for basic banking services.

The Government accepts this recommendation. It will introduce a CAT standard for basic bank accounts which will be of particular benefit to those using a financial service for the first time. Such a benchmark will give them the confidence to know that what is on offer is a fair deal, and allow them to make easier comparisons with the services on offer from different providers. It will be based on the outline of a basic bank account set out in the Report by Policy Action Team 14, *Access to Financial Services*, in November 1999 and the Government will consult on this at the same time as it consults on benchmarks and CAT standards more widely in the Autumn. It is also essential that basic bank accounts are effectively marketed, widely available, and widely accessible in locations which are easy to reach for those who do not currently have bank accounts, for example, in poor neighbourhoods in towns and cities as well as rural areas.

Recommendation 54

§7.24 p.187

If the Government considers it necessary to intervene in the provision of basic banking services, it should define a universal service and tender for the lowest subsidy required to deliver the defined service.

The Government agrees with the report in the importance of obtaining value for money and ensuring competitive outcomes should it decide to intervene. In achieving this aim the Government also positively supports the Post Office in developing its concept of a universal bank.

Recommendation 55

§7.28 p.188

The Government should ensure that:

- (a) *the delivery of benefits, where not made through automated credit transfer, uses existing electronic networks - for example, ATM and cashback;*
- (b) *Government agencies which make payments to individuals are allowed to make the investment necessary to allow all recipients the option of receiving benefits through ATMs or cashback facilities.*

The Government accepts this recommendation. It will act accordingly, taking into account its commitment that people who wish to draw their benefits in cash at Post Offices will continue to be able to do so following the switch to paying benefits electronically from 2003.