

**Informal meeting between Legislative Council Members and
Mr John TINER, Chief Executive of the Financial Services Authority of the United Kingdom
held on 2 February 2006**

Issues related to the Financial Services Authority

I. Summary of information

Role of Financial Services Authority (FSA)

- FSA is a company limited by guarantee and funded solely by levies on the financial businesses it regulates, such as banks and insurers. It is given statutory powers by the Financial Services and Markets Act 2000 (FSMA) as the single regulator responsible for the authorization and supervision of deposit taking, insurance, investment, insurance mediation and mortgage business.
- The Chairman represents FSA at high-level meetings of the Tripartite Standing Committee, alongside the Chancellor of the Exchequer and the Governor of the Bank of England (N.B. this committee has not met).
- There is no mention of the Chief Executive (CE) post in FSMA and the delineation of the roles of the Chairman and the CE is not specified in the FSMA.

The Board of FSA

- The Board of FSA is the governing body of the regulator.
- The Treasury appoints the FSA Board, which currently consists of a non-executive Chairman, a CE who is an executive director, three Managing Directors, and 10 non-executive directors (including a lead non-executive member, the Deputy Chairman). Except for the Chairman who is appointed on a five-year term, all other Board members are appointed on three-year terms.
- The Board sets FSA's overall policy, but day-to-day management decisions and other executive functions are the responsibility of the CE and his staff.

Accountability

- FSA is accountable, through Treasury Ministers, to Parliament. It is operationally independent of Government and FSA's annual budget is approved by the Board.

- The annual report of FSA is laid before the Parliament by the Chancellor of the Exchequer. Its objectives, plans, policies and rules are information in the public domain and available through various means such as the FSA website.
- On 1 February 2006, FSA published its Business Plan for 2006/07 (year commencing 1 April 2006), setting out its priorities for the year ahead and its planned budget to achieve its objectives.

Appointment of the Chairman and the CE of FSA

- The recruitment and appointment of the Chairman and the CE are made in accordance with the principles and procedures for public appointments. These entail public advertisement of vacancies and consideration of eligible candidates by selection committees on the basis of merits and equal opportunities.
- The incumbent Chairman has been appointed on the basis of working four days per week; while the CE is a full-time employee of FSA.
- A three-member selection committee (consisting of the FSA Chairman and two other members from the Treasury and the business sector) was convened for the recruitment of the CE. The appointment of the CE is not subject to any fixed tenure. Notwithstanding that FSA Board members are appointed on three-year terms, the CE remains a Board member as long as he holds the post of CE.
- The remuneration of the Chairman and the CE is decided by the Remuneration Committee of the Board. The annual remuneration of the Chairman is about £300,000. The annual remuneration of the CE is about £ 400,000 plus bonus,(the maximum of which is 25% of the annual pensionable salary) and benefits.
- For avoidance of real/perceived conflict of interests, the incumbent Chairman does not take up any other paid work or company directorship in the businesses regulated by FSA.

Acting arrangements

- There is no fixed convention on acting arrangements during the temporary absence of the Chairman or the CE. The actual arrangement is decided in the light of the circumstances of individual cases and reported to the Board. While the Chairman had acted as CE during the latter's sick leave for some three months in 2005, the three Managing Directors have acted in rotation as CE during the latter's absence for shorter periods.

Division of work between the FSA Chairman and the CE

- While the CE is responsible for the day-to-day management of FSA, the Chairman is sufficiently briefed on major issues of concern.
- In view of workload and time constraints, there is a division of work between the Chairman, the CE and the three Managing Directors in representing FSA at international meetings. For example, the representative of FSA to the Technical Committee of the International Organization of Securities Commissions is a Managing Director.

II. Major views exchanged between Members and Mr TINER

The question of independence

- The involvement of a selection committee/panel to recommend to the Chancellor the appointment of the FSA Chairman can help reinforce the independence of the Chairman and of the regulator from political issues.
- A reasonable level of remuneration, not nominal remuneration, is important for attracting qualified persons to take up the chairman post and perform his duties in a highly professional and dedicated manner.

Effectiveness or otherwise of the splitting arrangement of FSA

- Since the separation of the roles of the FSA Chairman and the CE in 2003, Board members, including the non-executive members, generally shared the view that such an arrangement is effective.
- With a Chairman dedicated to establishing and developing an effective Board, better governance has been achieved for FSA. The splitting arrangement eliminates the possible conflict of roles arising from a Chairman who also performs the executive functions, and makes the CE more accountable to the Board in his day-to-day decisions and management responsibilities.
- There has been a better division of work between the Chairman and the CE in making political and public representation respectively for the work of FSA.
- As gathered from experience in handling simulated crisis, the Chairman and the CE could complement each other in formulating contingency measures and responses.