Investment Management Association

7 March 2014

Email: info@bankingstandardsreview.org.uk

Sir Richard Lambert
Banking Standards Review
1st Floor
60 Gresham Street
London EC2V 7BB

Dear Sir Richard

CONSULTATION PAPER: BANKING STANDARDS REVIEW

IMA represents the asset management industry operating in the UK. Our members include independent fund managers, the investment arms of retail banks, life insurers and investment banks, and the managers of occupational pension schemes. They are responsible for the management of £4.5 trillion of assets, which are invested on behalf of clients globally. These include authorised investment funds, institutional funds (e.g. pensions and life funds), private client accounts and a wide range of pooled investment vehicles. In particular, the Annual IMA Asset Management Survey shows that IMA members manage holdings amounting to 30% of the domestic equity market.

In managing assets for both retail and institutional investors, IMA members are major investors in listed companies, including banks. Given recent banking scandals and the banking failures that precipitated the 2007-2008 financial crises, we welcomed the establishment of the Parliamentary Commission on Banking Standards. We also support this current initiative to raise standards in banking, addressing both conduct and competence, and to promote cultural change in the banking industry.

We broadly support the proposal in the paper that a new body should be established to promote changes in banking standards and agree with the questions raised. However, we would like to make certain observations and suggestions as regards the new body as set out below.

- The paper is largely silent on the issue of the new body's accountability and states that it is not clear at this stage as to whom or to what it should report. It specifically invites comments on this (page 8 and question 5).

  We consider it important that this is addressed sooner rather than later. We welcome the proposal that the new body will be transparent and issue a report on an annual basis. It is important that this report is public. We also support the chair and chief executive being called to account by the Treasury Select Committee every year.

However, to ensure accountability is ongoing, we suggest the Government appoints an independent commissioner to oversee the new body. Its annual report should be addressed to the commissioner, as well as each individual bank's report. This would go some way to help ensure the body's credibility.

- The paper proposes that the new body develops metrics to enable banks to benchmark their performance against each other and that each bank reports on its progress annually.

  Whilst such steps are welcome, the difficulties in measuring changes in behaviour should not be underestimated. Moreover, it is important that any metrics that are developed are consistently applied by each bank so the results are comparable. To this end, we suggest that this would be helped if each bank set up an independent scrutiny committee. The members of this committee, although paid by the bank concerned, should be independent of both the Executives and Non-Executives and would be responsible for composing and presenting the bank's annual report. We also believe such reports should be public.

- The paper proposes that the new body is a standard setter not a regulator. Its relationship initially is to be with the banks themselves as opposed to with individual bank employees. As stated on page 10, it will be for the banks to deal with misconduct by their own employees.

  We agree that initially the new body should deal with the banks as opposed to individual bank employees but support a longer term aspiration to move to a system of individual membership. It is also important that in dealing with employee misconduct there is objectivity and we consider that this could be something that could fall within the remit of the independent scrutiny committee as noted above. The committee should look into each case individually and include relevant details in the annual report.

Overall, we recognise that the establishment of a new body is an important first step in the process of introducing cultural change in the banking sector. However, responsibility for ensuring the right culture, behaviour and conduct should still rest with the banks' management and it should focus on these issues. The new body should not be seen as a way for banks to deliver these improvements albeit it can help support them. As proposed, it is important that progress is regularly reviewed and reported on to ensure that the changes sought are achieved in practice.

Please contact me if you would like clarification on any of the points in this letter or if you would like to discuss any issues further.

Yours sincerely

Liz Murrall
Director, Corporate Governance and Reporting