



Welcome from CEO

Welcome to the latest issue of Regulatory Connection. In this issue we report in detail on the final stages of preparation for the Markets in Financial Instruments Directive (MiFID).

MiFID has been a very significant project for us and the industry and overall, we are pleased with the preparation made by all parties involved in getting ready for its introduction. Firms will now be aware of the requirements of MiFID and I would ask all MiFID firms to have their operations and controls, systems and procedures capable of delivering a MiFID-compliant service from November.

Patrick Neary
Chief Executive

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Markets in Financial Instruments Directive (MiFID)

As you will be aware from previous issues of Regulatory Connection, the MiFID is the most significant piece of financial services legislation agreed in recent times and applies to both Investment Firms and Credit Institutions when providing investment services. The Statutory Instrument transposing the MiFID into Irish legislation was signed by the Minister for Finance on 15 February 2007 and firms must be compliant with the provisions of the legislation by 1 November 2007.

A lot of work has been carried out in 2007, by both industry and the Financial Regulator in preparation for the implementation of MiFID. From the outset we have designed and put in place a process to ensure MiFID is correctly, fairly and transparently brought into Irish law. This involved establishing fourteen separate workstreams to deal with the various aspects of the implementation of MiFID. These workstreams cover areas such as conduct of business, transaction reporting, transposition and the many other elements that MiFID incorporates. Details of the various workstream areas and the relevant contact person are set out in the table accompanying this article.

WORKSTREAM	CONTACT
CESR	michael.hennigan@financialregulator.ie
Transaction reporting	jack.grehan@financialregulator.ie
Systematic Internalisation	helen.ward@financialregulator.ie
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Mapping of authorisations and passports	tim.mcdonagh@financialregulator.ie
Conduct of Business	deirdre.norris@financialregulator.ie
Client classification	deirdre.norris@financialregulator.ie
Registers	fiona.strain@financialregulator.ie

The Financial Regulator's website, at www.financialregulator.ie/industry/in_inv_mifid_impl.asp, contains work output of various workstream and other useful information that the MiFID implementation process has generated.

Throughout this process we have consulted widely and welcomed the participation of the MiFID Joint Implementation Forum. This provided us with an opportunity to keep industry informed of our work progress and to get feedback on what the most immediate and pressing concerns for industry were. This forum is expected to meet again in December to hear from interested parties as to what their experiences have been following implementation of the directive.

As we near the implementation date of 1 November updates on work-in-progress are provided in the various workstreams on the next page.

Update on the MiFID Project

Mapping

The exercise to map the authorisations of existing investment firms and stock exchange firms to become MiFID services and instrument firms is now complete. In the coming weeks, issue updated authorisations to all existing firms reflecting the changes requested by individual firms.

Client Assets Rules

The Client Asset rules are largely unchanged from the existing rules as a result of MiFID, apart from the disapplication of the rules to controlled assets. The existing rules have been changed to provide for that disapplication and to reflect more accurately the language of the provisions of MiFID. The rules have been published on the MiFID pages of our website.

Organisation and Internal Controls

The MiFID imposes a number of requirements on firms to ensure proper organisation and appropriate controls. These requirements have been considered in a workstream in which Financial Regulator staff and industry representatives participated. This group has agreed that the Financial Regulator will not issue guidance as to how these requirements might be implemented in firms. It will be a matter for each firm to determine for itself what organisation, controls, policies and procedures would be appropriate. Reports of the discussions in this workstream have been published on our website.

Firms should by now have considered and decided about how they will fulfil these requirements. We will be evaluating implementation of these requirements in 2008 and will seek details in writing from firms of how they have been met and follow up by on-site inspections in a sample of cases.

Conduct of Business

The conduct of business workstream considers areas such as client categorisation, provision of information to clients, assessment of suitability and appropriateness, reporting to clients, best execution, client order handling and inducements. It also deals with some organisation issues, i.e. complaints, personal transactions, and conflicts of interest, and has responsibility for record keeping in relation to conduct of business issues.

An Industry Working Group was set up in December 2006 to highlight issues of concern to industry where it may be necessary for the Financial Regulator to provide clarity. The Working Group consists of representatives from the Financial Regulator and nine representatives from industry including the IBF, IAIM and the Stock Exchange, FSI and from firms that are not members of a representative body. The Working Group has met twelve times to date.

The Working Group agreed to issue a two-part Feedback document, based on their deliberations and Phase 1 of the Feedback document was published by the Financial Regulator on its website on 11 July. It is in a questions and answers format and deals with:

- client categorisation,
- suitability and appropriateness,
- provision of information to clients
- reporting to clients, and
- investment research.

Phase 2 of the Feedback document, dealing with inducements, conflicts of interest, best execution, client order handling and the interaction between MiFID and the Consumer Protection Code, is currently being drafted. It is intended to combine Phase 1 and Phase 2 into a single document which will be published on our website in early October.

Transaction Reporting

We are well advanced in developing our monitoring system, as part of our overall electronic reporting project. We have now published the final XML schemas, including the schema for sending client codes, which are available on our website. We have issued guidelines in relation to transaction reports for subscriptions and redemptions of units of investment funds admitted to trading on a regulated market and set out the transitional arrangements for reporting transactions in derivatives traded on regulated markets. We have set out the minimum requirements to be included in a letter to the Financial Regulator if a firm wants to use the services of an agent to transaction report. Further details are also available on our website. In October, we will hold a demonstration of the electronic reporting system for investment firms. The transaction reporting capability will be in place by 1 November 2007 in order to receive reports from investment firms and to facilitate the exchange of information with other competent authorities. The system will be developed further during 2008 to provide an effective transaction monitoring system.

Authorisations

The Application for Authorisation together with a Guidance Note on Completing and Submitting an Application for Authorisation under MiFID Regulations were published on our website in September. These documents have also been issued to potential applicants.

If you have any queries in relation to these documents and/or wish to be on our mailing list please e-mail Anne Marie Pidgeon at annemarie.pidgeon@financialregulator.ie

MiFID Register

The format and content of the MiFID Register has been finalised. It reflects the legislative requirements. Work is ongoing to ensure that the register will be available for 1 November 2007.

CESR

The Committee of European Securities Regulators (CESR) has completed the first state of MiFID Level 3 work and has produced a number of recommendations and guidelines on MiFID obligations. The Financial Regulator has committed to adhering to CESR standards and will follow the recommendations and guidelines in its supervisory work. A list of those documents that the Financial Regulator will have regard to is published on our website under a CESR heading. Firms should take note of these documents. As CESR's work continues, so will the amount of documents that are relevant to our work. We will maintain references to these documents as they are produced by CESR.

Books and Records

One of the documents that CESR has published is a list of the minimum books and records that will be required to be maintained by firms under MiFID. The Financial Regulator is required to publish this list on its website. The list has been redrafted to refer to Irish MiFID legislation as set out in the Regulations 2007 and this document is available on our website.

Transposition

As mentioned previously, the MiFID was transposed into Irish law on the 15 February 2007 to commence on the 1 November. We understand that the Minister for Finance proposes to make some amendments to this document prior to the commencement date. Any developments in relation to this will be published on the Department of Finance's website www.finance.gov.ie.

Consumer Protection Code

Code Clarifications Document

Since the introduction of the Consumer Protection Code in August 2006, the Financial Regulator has endeavoured to assist industry in becoming Code-compliant by responding to a range of queries from regulated entities and industry representative bodies on an ongoing basis. In response to a high level of recurring queries, relating to both the content and implementation of the Code, the Financial Regulator published an information paper on its website in July 2007. This paper, entitled "Consumer Protection Code Clarifications", seeks to highlight and provide clarity on a number of Code provisions that have generated the most queries. Issues addressed in this Clarifications document include provisions relating to the scope of the Code, record-keeping, regulatory disclosure, debt consolidation and advertising requirements.

Survey of Sales Processes of Regulated Mortgage Providers

In April and May 2007, the Financial Regulator conducted a survey on the mortgage sales processes of a number of regulated mortgage lenders to examine how firms were planning to comply with the Consumer Protection Code's provisions relating to mortgage suitability. We have recently written to all regulated mortgage lenders with feedback from the survey and have set out certain areas which, in our view, should be considered when assessing suitability of mortgage sales. A summary of this feedback will be published on our website shortly.

Funds

Amendments to rules in relation to the valuation of Over-the-Counter (OTC) derivative contracts

Following consultations with the investment funds industry in December 2006 and February 2007, the valuation rules in relation to OTC derivatives were amended in July as follows:

- A Collective Investment Scheme (CIS) may choose to value an OTC derivative using either the counterparty valuation or an alternative valuation, such as a valuation calculated by the CIS or by an independent pricing vendor.
- Where a CIS values an OTC derivative using an alternative valuation,
 - we expect that the CIS will follow international best practice and adhere to the principles on valuation of OTC instruments established by bodies such as IOSCO and AIMA;
 - the alternative valuation is that provided by a competent person is approved for the purpose by the trustee, or a valuation by any other means provided that the value is approved by the trustee; and
 - the alternative valuation must be reconciled to the counterparty valuation on a monthly basis. Where significant differences arise these must be promptly investigated and explained.
- Where a CIS values an OTC derivative using the counterparty valuation:
 - the valuation must be approved or verified by a party who is approved for the purpose by the trustee and who is independent of the counterparty;
 - the independent verification must be carried out at least weekly in the case of UCITS and at least monthly in the case of non-UCITS.

New Guidance

Two new UCITS Guidance Notes were issued in July as follows:

Financial Indices Guidance

A guidance note on financial indices clarifies the circumstances under which a UCITS must seek approval from the Financial Regulator before using a particular index and describes the information that must be submitted. It also clarifies other related areas such as the use of indices composed of ineligible assets and prospectus disclosure requirements.

Structured Products & Complex Trading Strategies

The guidance note on Structured Products and Complex Trading Strategies - Prospectus Disclosure Requirements provides clarification with regard to the disclosure of such trading strategies in the prospectus of a UCITS in order to ensure that the important principle of investor-protection continues to be given primacy.

Both guidance notes are available from our website www.financialregulator.ie

Credit Unions

Longer Term Lending Approval

In April 2007, the Minister for Finance issued a Statutory Instrument (SI 193 of 2007) which implements new longer term lending limits for those credit unions that, having confirmed that they have the necessary controls and safeguards in place and meet specified financial criteria, obtain written approval from the Registrar. The new increased limits for such lending are as follows:

- over five years: increased from 20% to 40% of total loans outstanding;
- over ten years: increased from 10% to 15% of total loans outstanding.

In consultation with the representative bodies and auditors, the Registrar of Credit Unions has developed an application form and explanatory note to assist credit unions that wish to apply for approval in accordance with the new limits. This application form is available on the credit unions section of our website. To date five credit unions have been approved by the Registrar to apply the increased lending limits.

RCU News

The next edition of the Registrar of Credit Unions newsletter, RCU News, will be published in December 2007.

Markets

Invitation to Comment on Prospectus, Market Abuse and Transparency Rules of the Financial Regulator

Interim Prospectus Rules and Interim Market Abuse Rules were issued in July 2005 and a Guidance Note relating to the prospectus approval process was issued in August 2005. In March 2006 final Prospectus Rules and Market Abuse Rules were issued. Interim Transparency Rules were issued in June 2007. The Prospectus, Market Abuse and Transparency Rules set out procedural and administrative requirements and guidance in respect of the Regulations and are available on the Financial Regulator's website www.financialregulator.ie.

The Financial Regulator is now considering whether to issue amended Prospectus, Market Abuse and Transparency Rules.

We would welcome comments from authorised firms, representative bodies or other interested parties in this context. Any submissions should be made in writing to Louise Campbell, Markets Supervision Department, Financial Regulator, PO Box 9138, College Green, Dublin 2 or by email to markets@financialregulator.ie by 12 October 2007.



Pictured at the IBF Conference which was addressed by Patrick Neary in September are left to right - Pat Farrell, Chief Executive, Irish Banking Federation; Patrick Neary, Chief Executive, Financial Regulator and Danièle Nouy, Chair, Committee European Banking Supervisors (CEBS). Ms Nouy also addressed this year's conference which focused on Retail Financial Services in Europe 2012.

Asset Covered Securities Act 2007

On 31 August 2007 the Chief Executive of the Financial Regulator signed the statutory instruments and regulatory notices which brought into operational effect on that date, key secondary legislation required under the Asset Covered Securities (Amendment) Act 2007. This secondary legislation was developed in consultation with key Industry stakeholders.

Asset Covered Securities (ACS) are Irish covered bonds. They are highly-rated (all triple-A-rated to date) debt instruments, which are issued by specialist banks (Designated Credit Institutions (DCIs)) and are backed by, or secured on, a ring-fenced pool of eligible assets of high credit quality. Investors in covered bonds have a preferential claim over these assets in the event of default.

Irish covered bonds are subject to several regulatory requirements that are unique to the product, including supplemental independent oversight by cover asset monitors, who validate compliance with key regulatory and legislative requirements. There are minimum credit criteria and geographical limits controlling the quality of asset that may be held by the issuer.

Additional changes include mandatory over collateralisation of 103%, eligibility of mortgage backed securities and technical amendments to ensure compliance with the EU Capital Requirements Directive, including specific valuation rules.

Further work is expected to commence shortly in relation to the new category of ACS issuer, the Designated Commercial Mortgage Credit Institution, in consultation with Industry.

Anti-Money Laundering Update

Update on Implementation on Third Directive on Prevention of the use of Financial System for Money Laundering and Terrorist Financing.

As outlined in the previous issues of Regulatory Connection, Member States are required to bring into force the laws, regulations and administrative provisions necessary to comply with this Directive by 15 December 2007. The type of revised provisions that will impact on the obligations of the financial sector arise from a move away from the narrow focus of customer identification to a broader focus on customer due diligence which includes obtaining information on the purpose and nature of the intended relationship and ongoing monitoring of the business relationship. There are also requirements to adopt a risk-based approach which will give rise to simplified customer due diligence measures in certain cases and enhanced due diligence in other cases.

In Ireland work on the implementation process is continuing in each of the three key elements of the process as follows:

■ **Transposition of the Directive into Irish Law**

The Department of Justice, Equality and Law Reform is finalising work on the Draft Heads of a Bill for submission to Government. A consultation process on the draft heads for official bodies and government agencies has been undertaken and the Financial Regulator has provided comments to the relevant government departments during this process. Following the publication of the Draft Heads there will be consultation with other stakeholders through the Money Laundering Steering Committee (MLSC) chaired by Department of Finance and on which the Financial Regulator is represented.

■ **Industry Guidance Notes**

In tandem with the above the Industry Working Group, comprising members of a number of industry sectors including representatives from the financial sector, has been working on drafting Revised Industry Guidance Notes. The aim is to replace the existing sets of Sectoral Guidance Notes, issued with the approval of the MLSC, with one combined set of Guidance Notes that will comprise common sections that will apply to all sectors as well as separate industry specific sections. The Financial Regulator, which is represented on this Working Group, will provide comments on the draft Guidance Notes once all of the industry members on the Group have provided their input. As part of our review of the draft Guidance Notes we plan to consult with those stakeholders that have not been represented directly on the Group. It is expected that this process will take place during November.

■ **Other work being undertaken within the Financial Regulator**

The Financial Regulator's internal working group, which comprises representatives of all relevant Financial Regulator departments, has continued with its work on reviewing internal processes, training requirements and approaches being adopted by other EU countries in implementation of the Third Directive.

Other International Aspects

Financial Action Task Force (FATF)

A copy of the Chairman's Summary of the June Plenary meeting, held in Paris in June 2007 and the FATF 2006/2007 Annual Report are available on the FATF website www.fatf-gafi.org

In July the FATF published Guidance on the Risk-Based Approach to Combating Money Laundering and Terrorist Financing. This guidance was developed by the FATF in close consultation with representatives of the international banking and securities sectors. The guidance supports the development of a common understanding of what the risk based approach involves, outlines the high-level principles involved in applying the risk-based approach and indicates good public and private sector practice in the design and implementation of an effective risk-based approach. The guidance is available on the FATF website.

In August the FATF published the second edition of its online newsletter, e-news, on the FATF website. The newsletter is part of the FATF's commitment to strengthen its outreach and communication with the private sector and the public as well as government bodies and agencies. The August edition includes details on key events from August up to February 2008, an overview of the findings from the recent Mutual Evaluation Reports on China, Greece and the UK and a summary of two typologies reports that were undertaken on 'Money Laundering & Terrorist Financing through Real Estate' and 'Laundering the Proceeds of Illegal Narcotics Trafficking'.

In September the FATF published guidance on implementing financial provisions of UN Security Council Recommendations to counter proliferation of Weapons of Mass Destruction. This guidance is intended to assist jurisdictions in implementing the financial sanctions and activity-based financial prohibitions contained in the UN Security Resolutions in this area.

The next plenary meeting of the FATF, which will be the first under the UK Presidency, will take place on 10-12 October 2007 in Paris. The agenda will include consideration of the draft Mutual Evaluation Report on Finland, updates from a number of countries assessed during the last two years including Australia, Italy and Switzerland and proposals to enhance private sector outreach. Details on the outcome of the Plenary will be available on the FATF website after the meeting.

EU Committee on the Prevention of Money Laundering and Terrorist Financing

The EU Commission has completed the first edition of its newsletter - EU AML News. The aim of this newsletter is to provide a regular overview on the actions and initiatives undertaken at European level to fight money laundering and financial crime in general. The newsletter will be published on the Commission website shortly and we will advise of the relevant link in due course.

Anti-Money Laundering Task Force (AMLTF) Reporting to CEBS, CEIOPS, CESR

The aim of the work of AMLTF is to help in supporting convergence in practices in the operational application of the Anti-Money Laundering/Terrorist Financing requirements, as well as enhancing information exchange and networking between EU supervisory authorities. The AMLTF provided an update to CEBS/CEIOPS/CESR in June 2007 on the work it carried out on a stocktake on the supervisory approaches and practices by member states to anti-money laundering and terrorist financing. The overall conclusion of this report was that while the manner in which AML supervision is organised varies across member states these differences do not seem to cause major concerns on moving forward in achieving convergence on AML issues. The AMLTF met in September 2007 and the agenda items covered included discussions on the results of initial work undertaken by members on a stocktake on customer identification and on cross border issues and how to proceed further with this work. The next meeting is scheduled to take place in December.

Comptroller and Auditor General Value for Money Report

In July, the Comptroller and Auditor General (C&AG) published a report on a Value for Money Examination of the Financial Regulator. The report highlighted the progress we have made since our establishment in 2003. Overall the results of the study were favourable and included a number of positive findings including:

- The Financial Regulator has generally been prompt in issuing associated rules and guidance for financial services providers.
- In developing standards, regulatory policies and administrative procedures, the Financial Regulator systematically consults with stakeholders and publishes related documentation on its website.
- Since its establishment, the Financial Regulator has devoted considerable effort to developing a formal risk-rating model, and significant progress in achieving risk-based supervision has been made.
- The Financial Regulator has been developing its capacity to assess the relative costs and benefits of new regulation where it has discretion in how legislation is to be implemented.

The Value for Money examination also highlighted a number of areas where we could improve our efficiency. Many of the recommendations are being addressed as part of our Strategic Plan for 2007-2009.

Copies of the report are available on the C&AG website – www.audgen.gov.ie

First Judgement of Irish Financial Services Appeals Tribunal

In August the Irish Financial Services Appeals Tribunal (the Appeals Tribunal), in its first judgement since its establishment, affirmed the decision of the Financial Regulator to refuse to grant Westraven Finance Ltd t/a Brinkspeed an authorisation to trade as a money transmission business. The reasons for the refusal to grant an authorisation were mainly grounded on the belief that Brinkspeed's application had sought to mislead the Financial Regulator and that the firm's anti-money laundering procedures were wholly inadequate. Details of the decision are available on the Appeals Tribunal website, www.ifsat.ie

Patrick Neary, Chief Executive, and Marion Ryan from Banking Supervision, Financial Regulator pictured signing the statutory instruments and regulatory notices which brought into operational effect the key secondary legislation required under the Asset Covered Securities (Amendment) Act 2007.



International Monetary Fund (IMF) Article IV Consultation on Ireland

Following its most recent visit, the IMF published details of the 2007 Article IV Consultation with Ireland in September. Overall the 2007 report gave a positive assessment of the Irish economy's performance and prospects and acknowledged the continued impressive performance of the economy with strong growth and one of the lowest unemployment rates among advanced countries.

On the financial sector, the report said that the Irish banking system is well-capitalized, profitable and liquid, and nonperforming loans are low. It welcomed indicators confirming the soundness of the Irish banking system, including the stress tests suggesting that cushions are adequate to cover a range of shocks. It also concluded that Ireland already ranks well in terms of banking sector competition, investor protection, and corporate transparency and that the challenge is to remain at the forefront of international best practice.

The report stated that the regulatory and supervisory system here has been strengthened over the past year, in line with the recommendations of the 2006 FSAP Update. It noted that new liquidity requirements for credit institutions-involving a forward-looking mismatch approach under which cash flows are assigned to relevant time bands-came into effect in July 2007. It also noted the work done by the Financial Regulator in the area of insurance supervision with the recruitment of experts, trained staff and the re-organisation of the structure with both an on-site inspection unit and a reinsurance unit in place.

The report supported the Financial Regulator's prudent approach on the riskweighting of lending to speculative commercial property and residential investment property and stated that although the amount of subprime mortgage loans here is small (less than 2 percent of outstanding mortgage loans), it supported the proposal to make all subprime lenders subject to the consumer protection code.

The report also said that financial sector vulnerabilities, including those arising from high household indebtedness and rising interest rates, require continued supervisory vigilance and called for continued careful monitoring of banks' risk management practices. The report supported the envisaged upgrading of the stress-testing framework and commitment to continue to improve supervision.

Full details of the publication are available in the Ireland Section of the IMF's website www.imf.org.

Lamfalussy Review

The four-level Lamfalussy process, established in 2001 for the securities sector and 2005 for the banking and insurance sectors, is currently under review. This provides a unique opportunity of refocusing and sharpening its objectives and achieving a shared view among all interested parties on the concrete outcomes and arrangements it should deliver in the medium term.

It will be discussed at the December ECOFIN meeting, on the basis of various forthcoming reports from the Inter-Institutional Monitoring Group, the Commission, the Financial Services Committee, the Economic and Financial Committee, the European Parliament as well as the 3 Level 3 Committees (CEBS, CESR & CEIOPS)

In July, the European Parliament issued a resolution to the Commission's White Paper on Financial Services Policy (2005-2010). In this, it:

- suggests to review whether increased decision making on Level 3 by some form of qualified majority voting should be achieved;
- proposes an annual mandate by Parliament and the Council to the Level 3 Committees to come up with concrete plans for cooperation and implementation of agreed measures, possibly drawing on EU budgetary resources;
- recommends a more precise definition of the Level 3 Committees' respective powers and mandates in order to reflect the need to progress towards a greater convergence of their practices;
- recommends binding decisions of Level 3 Committees vis-à-vis their members; and
- calls for the Committees to be adequately employed and resourced for the tasks which they have undertaken.

The Inter-Institutional Monitoring Group (IIMG) - composed of six independent experts - has a mandate to assess the progress made on implementing the Lamfalussy process and to identify any emerging bottlenecks. Following publication of its first and second interim reports, the third and final forthcoming IIMG report will focus on Level 3 issues.

European Commission

www.ec.europa.eu



Solvency II Directive

On July 10 last, a key milestone in the Solvency II project was reached when the European Commission published the draft Solvency II Framework Directive. This document will form the basis for the future European legislative and regulatory framework for insurance and reinsurance companies, as it will consolidate and replace the set of existing directives governing the sector. The process of negotiating and agreeing the final directive is now under way on two fronts, through the Council of Ministers and the European Parliament. The current Portuguese presidency has set a challenging schedule of meetings of the Council for the remainder of 2007, at which Ireland is represented by the Department of Finance, supported by the Financial Regulator. Meanwhile, the Parliament's first reading of the directive is expected to take place this month. The timetable for the Solvency II project envisages that the directive will be finalised by early 2009, with full implementation to take place in 2012. The draft directive can be found at:

http://eur-lex.europa.eu/LexUriServ/site/en/com/2007/com2007_0361en01.pdf.

Business Insurance Sector Inquiry

The European Commission has adopted the final report of the competition inquiry on the business insurance sector. This report can be accessed on the Commission's website via:

http://ec.europa.eu/comm/competition/antitrust/others/sector_inquiries/financial_services/business.html

Building on the interim report of January last, a public consultation and further fact-finding, the final report raises concerns about the operation of two areas of business insurance. Firstly, long-standing and widespread industry practices in the reinsurance and coinsurance markets involving the alignment of premiums, which may lead to higher prices for large risk commercial insurance. The report leaves open the question of whether these constitute infringements of the prohibition on restrictive business practices, but invites the industry either to justify the business practices concerned under the competition rules, or to reform them. Secondly, the Commission also confirms its concerns as to transparency of remuneration and conflicts of interest in insurance brokerage which may inflate prices and reduce choice, in particular for SMEs. The Commission will further explore this issue during the review of the Insurance Mediation Directive.

Funds

Earlier this year the European Commission published an exposure draft on proposals to modify the UCITS Directive with regard to notification procedures, fund mergers, pooling, management company passport, simplified prospectus/investor disclosures, supervisory powers and cooperation. The Commission commenced drafting the legal text in September with a view to a formal proposal by end 2007.

The Commission are also reviewing the possibility of a single market framework for certain retail oriented funds such as real estate funds and also the options available to establish a common European private placement regime.

CEIOPS

www.ceiops.org



Quantitative Impact Study 3

The third Quantitative Impact Study (QIS3) under the Solvency II project was run by CEIOPS from April to June this year. The results of this study will form a key input into the ultimate shape of the Solvency II system, coming as they do at this critical phase of the negotiation of the directive in Council and Parliament.

The Financial Regulator is pleased to announce that the participation of Irish industry in QIS3 has increased substantially compared to that in previous studies. This confirms the impression formed during our QIS3 workshops last May that the degree of industry engagement with the project has greatly improved. In all, 39 quantitative submissions were received from Irish companies, consisting of 16 life insurers, 16 non-life insurers and 7 reinsurers. This has provided us with our first credible data on the potential impacts of Solvency II proposals on the technical provisions, capital requirements and available capital of the Irish insurance industry. In addition, a small number of qualitative-only submissions were received. All of the submissions made have been analysed, and at the end of August the Irish national report was submitted to CEIOPS.

The CEIOPS QIS3 task force is in the process of analysing the EEA-wide submissions under QIS3. Indications of initial findings are being presented by CEIOPS at two stakeholder events; the CEIOPS consultative panel meeting, which took place on September 27, and the QIS3 stakeholder round table event on October 12. Thereafter, the task force will prepare its detailed report on QIS3, which is expected to be submitted to the European Commission in mid-November, and made publicly available. Once this has taken place, the Financial Regulator intends to publish the Study of the Irish QIS3 experience. Further details on the findings of QIS3 will be published in the next edition of Regulatory Connection.

We would like to thank all those companies that participated in QIS3, and encourage all insurance and reinsurance companies to plan to take part in the next study, QIS 4, which will be run by the European Commission in the second quarter of 2008. An initial specification for this exercise is expected to be published for consultation in January next.



CESR-Pol (permanent operational group within CESR responsible for surveillance of securities activities and exchange of information)

On the 12 July CESR-Pol issued its Second Guidance regarding the implementation of the Markets Abuse Directive. This Guidance develops the common understanding amongst CESR Members of the following issues:

- What constitutes inside information?
- When is it legitimate to delay the disclosure of inside information?
- When does information relating to a client's pending orders constitute inside information? and
- Insider lists in multiple jurisdictions.

On 26 July, CESR-Pol published its Level 3 work programme outlining further work CESR proposes to undertake in relation to MAD. Market participants have flagged many of these issues during the 2006 public call for evidence and the consultation process in issuing the Second Guidance to the market. The full work programme and the Second Market Abuse Guidance to the Market is available from CESR's website.

Funds

Within the CESR Investment Management Expert Group, two sub-groups have been established to consider issues for UCITS. The Key Investor Information sub-group has been established to review the disclosure regime for UCITS. It will issue a consultation document later this year seeking the views of all stakeholders on the content and form of key investor information to be presented to investors in UCITS. The Operational Task Force considers supervisory issues and will work towards the objective of achieving supervisory convergence.

In July 2007, CESR published its Level 3 Advice on the classification of hedge fund indices as financial indices for investment by UCITS.

Credit Rating Agencies

On 11 September 2007, Mr Eddy Wymeersch, Chair of CESR, Ms Ingrid Bonde, Chair of CESR's Task Force on Rating Agencies, and Fabrice Demarigny, Secretary General of CESR, met Commissioner Charlie McCreevy and his staff in Brussels. At this meeting, Commissioner McCreevy expressed the wish to understand several aspects of the rating of structured finance products. These points are set out further in a letter to CESR, which is available on the CESR website, as an additional request to review the role of credit rating agencies.

2006 Annual Report

On 28 September, CESR published its 2006 Annual Report. CESR's annual report summarises the key areas of activity throughout the year. The main part of the annual report outlines CESR's key initiatives throughout the period and the achievements of CESR to bring about supervisory convergence in day-to-day implementation to ensure the EU Single Market for Financial Services functions effectively. The report highlights the continued evidence of the high level of participation by a wide range of market participants in CESR's work through its consultations and hearings, including the steps taken to increase participation by representatives of investors which we consider to be critical.

Options & National Discretions in the CRD

As part of its work to develop a response to the European Commission's Call for Advice on options and national discretions in the CRD, CEBS has invited all interested parties to respond by 19 October to a questionnaire on the issue. Comments received will be published on CEBS website unless respondents request otherwise. The questionnaire is available on the CEBS website.

Own Funds & Capital

On 15 June, CEBS published its quantitative analysis of the capital instruments that are eligible for prudential purposes in the application of European Banking Directives. It is the fourth contribution of CEBS to the European Commission's current review of the definition of Own Funds.

Financial Conglomerates

On 30 August, CEBS and CEIOPS published a report on the possible impact of the differences in the definition of capital instruments provided for by the European banking, insurance and securities regulation, for the supervision of a financial conglomerate. This assessment has been produced by the Interim Working Committee on Financial Conglomerates in response to the Commission's call for advice on sectoral rules on eligible capital and analysis of the consequences for supervision of financial conglomerates.

Large Exposures

CEBS initiated a public consultation in June on a number of key aspects of the large exposures regime as part of developing its response to the European Commission's Call for Advice. A public hearing on large exposures was also organised in July at the CEBS premises.

Financial Reporting

Subsequent to a period of consultation, CEBS published approved amendments to the Guidelines on Financial Reporting (FINREP) on 24 July.

Liquidity Risk Management

On 15 August, CEBS published the first part of its technical advice to the European Commission on liquidity risk management.

Supervision in Third Countries

The European Commission has asked CEBS to provide technical advice to assist the Commission services and the European Banking Committee in updating the general guidance on the arrangements for supervision in third countries.

Supervisory Reporting

Public hearings on aspects of the reporting framework are scheduled to take place on 16 and 26 October at the CEBS offices in London.

International News

EU-China Roundtable on Financial Services and Regulation

The forthcoming 2nd EU-China Roundtable on Financial Services and Regulation will take place in Brussels on 18 October. It aims at further increasing the mutual understanding and challenges for the financial industry when doing business both in China and the EU. For further information on this event, see:

http://ec.europa.eu/internal_market/ext-dimension/dialogues/roundtable_en.htm

The International Accounting Standards Board (IASB) www.iasb.org

Hedge Accounting

The IASB has published for public comment an exposure draft of proposed amendments to IAS 39 Financial Instruments: Recognition and Measurement. The amendments are intended to clarify what can be designated as a hedged item in a hedge accounting relationship. The exposure draft of proposed amendments to IAS 39 – Exposures Qualifying for hedge Accounting is available, is open for comment until 11 January 2008.

Preliminary Views on Insurance Contracts

Further to the May edition of Regulatory Connection, we wish to remind readers that the IASB is inviting comments on its discussion paper on accounting for insurance contracts by 16 November. The IASB discussion paper proposes that an insurer should measure its insurance liabilities using the following building blocks:

- Explicit, unbiased, market-consistent, probability-weighted and current estimates of the contractual cash flows;
- Current market discount rates that adjust the estimated future cash flows for the time value of money; and
- An explicit and unbiased estimate of the margin that market participants require for bearing risk (a risk margin) and for providing other services, if any (a service margin).

Firms Authorised Quarter 2 (April- June) 2007

Authorisations	
Credit Institutions	PFPC Bank Limited , Postbank Ireland Limited, Wachovia Bank International.
Moneytransmitters & Bureau de Change	Coinstar Money Transfer (Ireland) Ltd, Matrix International Holdings Ltd, Michael O'Donovan T/A Boland Kinsale,RIA Financial Services Ltd.
Insurance Companies	Non- Life: Greenval Insurance Company Limited Reinsurance: Sector Re Limited
Investment Firms	Investment (non retail): An Post, Newcourt Retirement Fund Managers Ltd.
	Retail Investment Intermediaries (Authorised Advisor): Finance Life & Pensions t/a Cregan Kelly Financial Services; Moneystones (Financial Advisers) Limited Retail Investment Intermediaries (Multi-agency intermediaries): Adrian Burke & Co Auctioneers & Valuers Limited; Ann Reilly t/a Ann Reilly Financial Services; Anne Marie Mc Geehan t/a Rite Financial Solutions; Barry Murphy Auctioneers Limited t/a Barry Murphy Mortgages & Financial; Bartley Murray Cloney Financial Services; David O'Reilly t/a O'Reilly Wealth Management; DHKN Mortgages Dun Laoghaire Limited t/a EBS Dun Laoghaire; DMD Financial Services Limited t/a DMD Mortgage Solutions; Doherty Bergin Financial Services Limited; EB Walsh Financial Services Limited t/a Walsh Private; Gary O'Flynn t/a Flexible Mortgages; Gerald Walsh & John Winters t/a IBS Financial Services; Ian Greer t/a Greer Financial Services; John McConnell; John P. Vaughan; Kenneth Coleman t/a KM Coleman & Co.; McGeough Financial Consultants Limited; Michael Murphy; Orchid Financial Limited; Richard Crotty t/a Crotty & Co.; Seamus O'Keeffe t/a Seamus O'Keeffe and Associates; Sean Davey & Kevin McMorrow t/a Davey McMorrow; Thomas Davis Trust Limited t/a Elevation Wealth Management; Wealth Protection Partners; Professional Financial Services Centre Limited.
Mortgage Intermediaries	Alan Hearne, Alan Hitchcock & Martin Coughlan, Alpha Mortgages Limited, Andrew Nolan Financial Services Ltd, Ann Reilly, Annemarie McGeehan, Arthur & Lees Auctioneers Ltd, Aspiration Property Investment Package Limited, At Once Mortgages Limited, Barron Financial Consulting Limited, Brian O'Connor, Buioch Limited. Century Business Services Ltd, C & I Financial Services Gort Ltd, Castin Auctioneers Limited, Cathal Maxwell, Charles Crowley, Charterhouse Mortgage Centre Ltd, Cliff Byrne, Coonan Mortgage Group Limited, Crosswood Developments Limited, Cusco Company Limited, Damien Moloney, Dario Di Murro, Darnvale Limited, David Blanc, David Fogarty, David O'Neill, David O'Reilly, Davitt Davitt & Partners Limited, Denis Faulkner & Louis Boyce, Denise Cleary, Derek Prendergast, Dooley Financial Services Limited, Durcan Insurances Limited, East & West Financial & Recruitment Limited, EGF Financial Services Limited, Enda Munnally, Felicity Fox, Fergal O'Gara, Fitzgerald Auctioneers (Kilkenny) Ltd, Geraldine Whelan, Gerard Dunne H & R Mortgages Limited, Hamilton Osborne King Investors Ltd, HC Private Clients Limited, Hyland Johnson Murray Chartered Accountants Ltd, Ian Greer, Inspire Financial Options Ltd, Investors In Asia Limited, James Begadon, James Coyle, Janet Muteweye, Jim Kinsella, John G. O'Connell, John Hartley, John O'Connell, John Rohan Financial Services Limited, John Walsh, Kendar Financial Services Limited, Kevin Farrell, Kevin Hughes, Kieran Heaney, Laura O'Rourke, Lending Tree Limited, Louise Bayliss, M4 Finance Limited,, Malachy Callan & Tom Stringer, Clancy Cashflow Solutions Limited, Mark Gillen, Martin Sargent, Maximum Mortgages Limited, Meath Financial Services Limited, Michael Abiodun Gbadebo, Michael Henchy (Insurances) Limerick Ltd, Michael O'Leary, Michael Walsh Consultancy Services Ltd, Moneytree Finance Limited, Neil Hughes, O'Connor Pyne & Co. Limited, O'Leary Kinsella Property Advisors Limited, Olufemi Dawodu, O'Reilly Business & Finance Enterprises Limited, OSCB Limited, Pat McDaid, Patrick Burns, Peter Lyons, Philip Shaw, Profile Mortgages Limited, Ray Cooke Auctioneers Ltd, Richard Coen, RV Financial Services Ltd, Sarah Jordan, Seamas Early, Sean Burke & Kieran McCarthy, Sean Flynn, Sean Kerins, Sean O'Dwyer, Siobhan Donohoe & Karen Hennessy, SKPQ Business Services Ltd, Stephen Shevlin, Susan Bradshaw, The Finance Partner Limited, Timothy Scriven & William O'Regan, Tom Corbett, Tom Hutchinson, Tom McCarthy, Tom McKenna, Tony Hughes Financial Services Limited, Valentine Smith, Yvonne Walsh & Joan Treacy.

Insurance Intermediaries	<p>Adrian Burke & Co Auctioneers & Valuers Limited; Ann Reilly t/a Ann Reilly Financial Services; Anne Marie Mc Geehan t/a Rite Financial Solutions; Avondhu Financial Limited; Ballaugh Limited t/a Dermot Healy Motors; Barry Murphy Auctioneers Limited t/a Barry Murphy Mortgages & Financial; Blood Horse Insurances Services Limited t/a Bloodhorse Insurances; Bradley Merren Robert Morton John Coleman t/a Wealth Protection Partners; Brenda Troy Mortgage Services; Brian Cleary & Associates Limited; Clancy Cashflow Solutions Limited; Coonan Mortgage Group Limited t/a Coonan Mortgage Group; CRC Nationwide Loss Assessors Limited; David O'Reilly t/a O'Reilly Wealth Management; DMD Financial Services Limited t/a DMD Mortgage Solutions; Doherty Bergin Financial Services Limited; Don Reddan Insurances; EB Walsh Financial Services Limited t/a Walsh Private; Eleanor Roche t/a Eleanor Roche Mortgage Services; Ena Loakman t/a The Platinum Mortgage Group; Gary O'Flynn t/a Flexible Mortgages; Gerard Walsh & John Winters t/a IBS Financial Services ; H & H Motors Limited; Kevin Keane t/a Keane Finance Brokers; Haran & Associates; Haven Financial Consulting Limited; HBCL Investments & Pensions Limited; Ian Greer t/a Greer Financial Services; IMO Hospital Doctors Financial Services Limited t/a IMO NCHD Financial Services; DHKN Dun Laoghaire Limited t/a EBS Dun Laoghaire; Irish Nursing Homes Organisation Limited; John McConnell; John Rohan Financial Services Limited; Kenneth Coleman t/a KM Coleman & Company; Marsh Nissan Limited T/A Tullamore Nissan; McGeough Financial Consultants Limited; Merrill Lynch International Bank Limited; Michael Murphy; Midland Public Loss Assessors Limited; Money Sense Limited ; MTIS Limited; Newcourt Retirement Fund Managers Limited; Orchid Financial Limited; Pareo Limited; Pembroke Insurances Limited; Proassured Ireland Limited; Ted O'Donovan; Professional Financial Services Centre Limited t/a Professional Financial Services; Profile Mortgages Limited; Quick Quotes Limited; Quinlan Private Capital Limited t/a Quinlan Private/Quinlan Private Capital; Quote Devil Limited; Richard Crotty t/a Crotty & Co; RiskPro Limited; Seamus O'Keefe t/a Seamus O'keeffe and Associates; Sean Davey & Kevin McMorrow t/a Davey McMorrow; SMP Financial Limited t/a Irish Mortgage Providers; The Auto Supermarket Limited; Thorn Motors Limited t/a Michael Tynan Motors; The MoneyButler Limited t/a MoneyButler Financial Services / MoneyButler Life & Pensions ; Thomas Davis Trust Limited t/a Evalation Wealth Management; Top Car Automall Limited t/a Drive Motor Group.</p>
Fund Service Providers	<p>LFS Custodial Services (Ireland) Limited was authorised under the Investment Intermediaries Act, 1995 to carry out custodial services to collective investment schemes.</p>

Funds Authorisations

191 Funds (including sub-funds) were authorised for the second quarter of 2007. The Net Asset Value of all funds authorised at 30 June 2007 was €817.4 billion compared to €637.2 billion a year earlier.

Funds	Funds	Including Sub-funds
Funds authorised from 1 April 2007 to 30 June 2007	37	191
Funds revoked from 1 April 2007 to 30 June 2007	0	55
Aggregate number of funds authorised to 30 June 2007 (net of revocations)	992	4340

Recently published on www.financialregulator.ie

- Address by Chief Executive at IBF Conference
- Publication of Insurance Statistical Review 2006
- Financial Regulator Annual Report 2006
- Address by Chief Executive at Public Affairs Ireland Regulating Ireland Conference
- Consumer Protection Code Clarifications Document
- Stakeholder Protocol
- Industry Funding Guide
- Address by Prudential Director to European Institute on MiFID

Consumer publications published on www.itsyourmoney.ie

- Consumer Guide to the Consumer Protection Code - Your Little Red Book
- Life Insurance Made Easy

Financial Regulator's new personal finance consumer website - Itsyourmoney.ie

The Financial Regulator's new personal finance consumer website www.itsyourmoney.ie went live in September. The site includes a new easy-to-follow financial product listing with impartial information in plain English, online surveys, calculators and quick-reference lifestage information. New dynamic features have also been introduced including a competition, e-newsletter and a poll.



Pictured at the launch of the Financial Regulator's new personal finance consumer website in September are Aidan Jordan and Noelle Brown who both currently appear on the Financial Regulator's 'I don't know what a tracker mortgage is' advertisement.

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