Structured products Awards 2005

Regulator of the year

The UK's Financial Services Authority

FSA headquarters, Canary Wharf, London

Until very recently, the UK retail structured products landscape was dominated by offshore, unregulated, deposit-based structures. While this has allowed product providers to launch structured products relatively cheaply, it has limited the number of distribution avenues open to them.

But in April last year, the Financial Services Authority (FSA) made some fundamental changes to the country's existing retail investment scheme, the Collective Investment Scheme (CIS), with the introduction of the Collective Investment Scheme Sourcebook (COLL). This innovation widened the reach of the UK's retail investment market and helped bring structured products closer in line with the regulated unit trust space.

Under COLL, the FSA widened the scope of Open Ended Investment Companies (Oeics), which are regulated unit trust-type UK investment vehicles, to include the use of derivatives. Although its exposure to derivatives is limited to a maximum of 10%, it marked a milestone for the structured products market. For the first time, derivatives-based retail investments were able to benefit from the same tax advantages, flexibility and level of transparency that unit trusts enjoy.

Virtually overnight, structured Oeics gained greater access to sales avenues such as Individual Savings Accounts (ISAs), Personal Equity Plans (PEPs) and Self Invested Personal Pension (Sipps) . "The fact that structured Oeics can be sold through tax efficient wrappers is a clear advantage. This means greater flexibility and new sales channels for structured product providers," says David Barclay-Miller, director of London-based Product Innovations Limited (PIL). The UK's independent financial advisor community is already demanding providers convert their range into structured Oeics, he adds.

In a move to further liberalise the retail investment market, the FSA decided to grant derivatives-based investments greater leeway with the authorisation of "non-Ucits" type Oeic structures. The introduction of non-Directive imposed Oeics (Nurses) allows product manufacturers to use a wider range of asset classes and a higher degree of derivatives exposure than what is currently permitted through Ucits-compliant Oeics.

Although Nurses are closed-ended investment vehicles without EU distribution status, its introduction shows the regulator's willingness to accommodate the market's appetite for more complex and exotic structures and is an admission that an exclusively Ucits-led retail scheme runs at the peril of product innovation.

The FSA's progressive outlook continues into the hedge fund space with the recent appointment of a six-person hedge fund supervisory team headed up by Andrew Shrimpton, sector manager of the FSA's asset management team. The new hedge fund team will be responsible for the relationship management of 35 hedge fund management firms initially, a responsibility previously managed by a number of different teams in the FSA's wholesale investment firms department.

Although the new team was set up in isolation of the structured products market, increased supervision is expected to influence consumer confidence and stimulate the growth of the hedge fund-linked note market in the UK.

When it comes to introducing innovation that directly affects the structured products market, the FSA's move to deal with the structured capital-at-risk products (Scarps) mis-selling scandal is a case in point. The regulator spent the past two years investigating the scandal through a team of dedicated investigators, which was disbanded in September having fulfilled its aim. During the team's two years of active service, it reviewed 150 firms, which resulted in redress to customers of around £125 million. The FSA is expecting a further £25 million to be paid in redress and seven firms have been declared insolvent as a result of the regulator's intervention.

Why the FSA won

The FSA nabs the award for regulator of the year for its role in creating a level playing field between retail funds and guaranteed equity bonds by widening the scope of the UK's Collective Investment Scheme (CIS). And by taking a firm hand to the precipice bond scandal and increasing supervision of the UK's hedge fund community, the FSA is living up to its name as one of Europe's strongest watchdogs

Specialist