



Financial Services Club Meeting

Tuesday June 27th 2006

Debate on the benefits and costs of Regulation within the Financial Services industry

The Final meeting of the season offered the audience a debate about the value of regulation namely "By 2010 we will recognise the true value of Financial Regulation in UK Financial Services "

For the motion were David Strachen (DS) of the FSA and Russell Collins (RC) of Deloitte's who is also a member of the FSA practitioner panel.

Against the motion were John Plender (JP) the well known financial commentator, columnist and broadcaster together with Andrew Campbell-Hart (AC) who headed up Standard and Poor's Insurance Division.

JP's opening remarks attempted a pre-emptive strike on the view that the FSA is flexible and applying a light touch, by declaring that regulatory flexibility is an oxymoron. He carried on in this vein "beware of watch dogs bearing emollient gifts" and that its role is now largely being defined by European Union law which is itself evolving from "pork barrels and fudge" approach. As the most recent example is MiFID a high minded liberating directive which is becoming a bureaucratic nightmare and suffering classically from the law of unintended consequence. Reform zeal from the EU is not the only threat to London's hegemony, examples being NYSE's merger or acquisition with Euronext and NASD acquiring 25% of the London Stock Exchange. We are now deeply into global business without a global regulator. This was likened to the military analogy of being able to fight the last battle and not properly preparing for the next conflict.

He posed the question of how a cross border financial crisis would be resolved and postulated that such evolution as we are currently undergoing has historically been followed by a financial crisis.

So why are the major players apparently so relaxed about the impending additional bureaucracy and implied cost? – because it creates barriers to entry!

DS swung into action by quoting some figures. London's attractiveness has increased since 1996 and this apparently implied a credit to the regulator though how much credit was left unsaid. This regulator has been unique in constructing a cost benefit analysis for the MiFID initiative which was due to be published the next day. It's easy to see how additional costs are defined but increased market and consumer confidence are on the benefit side and are of course not so easily defined.



It shouldn't be overlooked that sometimes it takes the regulator to take a lead as there might be first mover disadvantage to be incurred if one of the major players tried to suggest or impose a reform. The audience was reminded that permitting a failure was not always a bad thing that should reflect badly on the regulator. If a firm was poorly run why should well run firms suffer and be indirectly asked to prop up or support such a badly run firm

AC reviewed the scene by reminding everyone that we have had several years of benign conditions but rates are now inching up and what happens if the system comes under stress. There is clearly a debate of principles versus rules and what is the balance to be achieved. The speed of innovation makes it difficult for the rules to keep up. The challenge is trying to sustain consumer protection while supporting the institutional markets growth opportunities. The risk is that the system will either not function or will have lost credibility.

RC for the motion opined that practitioners prefer risk based regulation and not cost based. A survey had showed that for banking the major expected impact on future profit was firstly globalisation and secondly regulation. 80% of practitioners supported regulation but were wary of it being too great a burden. Survey also said that the cost of compliance was getting out of hand and that the regulators were getting too civil service like. This warning has been heeded and thus the FSA are giving the main thrust to be principles based regulation.

There followed the customary views from the floor session which seemed to have more comment from the doubters than the supporters of the motion. One tongue in cheek comment from the floor asked whether the zeal for investor protection should not be matched by a need to protect the corporate from marauding, rapacious investors who might have no scruples about raiding their products.

The chairman Mike Anstee then summarised the views and called for a show of hands vote. It looked quite close and Mike diplomatically declared a not proven verdict.