

FINANCIAL SERVICES WHITE PAPER

Norman Tebbit has chosen a careful course between setting up a highly regulated, Government controlled SEC, and relying on competitive markets, disclosure and contract law. His sensible compromise will be attacked from both sides.

SEC fans will say that the Government has no direct control over the self-regulatory bodies, and the self-regulatory bodies will not be tough enough in rooting out malfeasance. Norman has a good answer to this criticism: the bodies have to report to him, there is the criminal law to root out the worst offences, and the choice of self-regulatory agencies gives the system more flexibility to accommodate the ever-changing shapes and patterns of investment business. A complex statutory regulation could simply drive business offshore and reduce London's importance.

There is a possible danger that the wide powers to vary or revoke the self-regulatory framework could be used later by less sensible politicians to usher in a much more heavy-handed approach without new law.

The case for caveat emptor, maximum disclosure and the rigours of competition which we have advanced, has been accommodated. For example, the suggestion that insurance

companies and brokers should reveal the level of commissions being paid to aid the marketing of their policies will be a great boon to the customer, who will doubtless be shocked when their level is revealed. This should also apply to self-employed pensions. Similarly, in the investment businesses, the need to declare to your client the investment business's own position in the stock concerned, and the price and time of the bargain compared with the then market price, will root out many of the current malpractices. Shady dealers can get away with a great deal in a world where they only have to send a simple contract note at the end of the day's business.

Making all of the businesses and bodies subject to competition law is also vital. Competition must have primacy over self-regulation, as it remains the most effective way of encouraging change and improving the deal for the customer. It is all too easy for self-regulatory bodies to degenerate into cosy clubs levying fees on their richer members in order to exclude the more vital and innovative small businesses. Norman will have to make sure that he can prevent this happening, by using the competition powers vigorously, and saying he will do so.

There are matters of detail still that need to be sorted out, but these may now be best left to emerge from the debate which the White Paper will launch. For example, there are difficulties in Section 7 concerning the rules

governing own-account trading and trading for clients. Too tight a series of rules will mean that all the good deals are booked only to the investment business's own book.

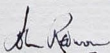
The self-regulatory bodies may need powers to call for information from auditors, as the JMB Review Committee is now discussing in another field.

When considering, in Section 13, the market as a source of funds for companies and a method for restructuring companies and managements, we have to be careful that the new common régime does not delay raising money through routes like the vendor placing, or give too great an advantage to professional investors.

There may be troubles in the definition of investment businesses and in the wholesale registration of them, whatever limited rôle they may be fulfilling.

### Conclusion

These are all quibbles, and the White Paper is in some respects cautiously vague on the final form of legislation on these vital matters. You could give it a welcome as a good piece of work trying to chart a difficult course through hostile waters, and leave the rest to the debate which will follow publication.

  
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