Brittan acts to block further City scandals

By William Kay, City Editor

The Government launched its long-awaited attack on scandals in the City of London yesterday when Mr Leon Brittan, Secretary of State for Trade and Industry, published his Financial Services Bill.

Mr Brittan said: "The Government's objective is to create a system of regulation which is both flexible and inspires confidence in issuers and investors that the financial services sector is a 'clean' place to do business."

He claimed that the Bill represented the most comprehensive overhaul of investor protection for 40 years. It implements a White Paper on financial services published in January.

The Bill's centrepiece will be one designated agency, to be known as the Securities and Investments Board, which will execute the supervisory powers of the Secretary of State through a series of self-regulating organizations.

But Mr Brittan was quick to answer criticism that this will leave the City to police itself.

He said: "If the self-regulating bodies do not live up to the required standards, their authority to regulate their own members can be withdrawn.

"The alternative of wholly statutory regulation would be more bureaucratic, legalistic and slower to respond."

To reinforce Mr Brittan's declaration, Sir Kenneth Berrill, chairman of the board, announced the creation of an ombudsman to make enforceable awards against an investment business that subscribed to the ombudsman scheme, coupled with a plan for compensation of up to £30,000 apiece for claims against a failed investment business.

As expected, the Bill does not include Lloyd's insurance market in its provisions. Mr Brittan explained: "The Lloyd's Act of 1982 is too recent for us to make a definitive assessment of its effectiveness, and even if we had I am not sure that the new Bill is the right framework to deal with it.

"But we are keeping a close eye on Lloyd's and will not hesitate to take whatever action of a legislative kind is necessary."

The Bill proposes to make it a criminal offence to carry on investment business without authorization. Any authorized business must obey the rules of its appropriate self-regulative organizations or affiliate directly to the Securities and Investments Board.

Cold calling – the practice of making unsolicited telephone or personal calls - will be prohibited unless the customer explicitly agrees to it in advance, in writing. However, unsolicited mailing shots will not be barred.

Sir Nicholas Goodison, chairman of the Stock Exchange, said: "For the first time all forms of investment, including insurance and commodity-linked investments will in future be subject to regulation.

"We have for many years argued that the standard of regulation of investment business outside the Stock Exchange should be raised. For the first time it seems likely that this will now come about".

The cost of the extra policing of the financial sector will fall almost entirely on investment businesses.

However, Mr John Smith, the shadow trade and industry secretary, said: "The Bill is quite inadequate for the major task of tackling City fraud. There is still too much emphasis on self-regulation, which can so easily become self-protection."

The shadow cabinet tabled an amendment declining to give a second reading to the Bill as it "fails to provide a clear and direct statutory framework for City regulations".

Mr David Steel, the Liberal Party leader, commented: "This Bill falls short of what is needed to end the crisis of integrity in the City. Conservative governments are always too indulgent to their chums in the City. The, on the whole, honourable City must not be allowed to become a 'spiv' City."

Digest of Bill, page 5
Leading article, page 11
Kenneth Fleet, page 15
Boards merge, page 15

Brittan acts to block further City scandals.
By William Kay, City Editor.

The Times (London, England), Friday, Dec 20, 1985; pg. 1; Issue 62326. (619 words)

Category: News