

# The Council for the Securities Industry

On 30th March 1978, the Bank of England announced that, following extensive consultations with Chairmen and senior representatives of the member organisations of the Take-over Panel and with the Chairman of the Consultative Committee of Accountancy Bodies, general agreement had been reached for the setting up of a new self-regulatory body for the securities industry. The new body would be entitled The Council for the Securities Industry (CSI). A document setting out the constitution, aims, and basis of operation of the CSI and the means by which it would be financed was circulated to members of constituent organisations for their endorsement. This document, the text of which is appended, was subsequently endorsed by all recipients.

Mr Patrick Neill, QC, Warden of All Souls College, Oxford, is the Chairman of the new Council. The Deputy Chairman is Sir Alexander Johnston, GCB, who also continues as Deputy Chairman of the Panel on Take-overs and Mergers. The Rt Hon. Lord Shawcross, PC, GBE, QC continues as Chairman of the Panel on Take-overs and Mergers and will have a seat on the Council. The Bank are providing the Secretary of the Council and are also making temporary accommodation available in the Bank until permanent accommodation in the Stock Exchange Tower is ready for occupation.

It will be recalled that the Secretary of State announced in the House of Commons in October 1976 that arrangements for improved co-ordination on securities regulation matters had been agreed between the Bank of England and the Department of Trade. The arrangements included the development by the Bank of their surveillance of the securities industry with a view to improving the effectiveness and cohesiveness of the existing self-regulatory machinery. Extensive discussions have been under way now for some time between the Bank and interested parties with this objective in mind.

Recently, following the detailed study by Messrs Macdonald (Director General of the Take-over Panel) and Knight (Deputy Chief Executive of the Stock Exchange) undertaken early in 1977, a small working party has given further consideration to the non-statutory aspects of securities regulation and has confirmed the desirability of setting up a new supervisory body in which all the major organisations active in the securities industry would participate together with lay members to represent the individual investor and the wider public interest. This new supervisory body would be built around the existing regulatory machinery of the Stock Exchange, as the central market for securities, and of the City Panel on Take-overs and Mergers. The different sectors of the industry would continue to maintain and develop their internal supervisory and regulatory rôles but the new supervisory body would formalise and extend the co-ordination, consultation and co-operation which presently exists between the Stock Exchange and the users of the market with the object of sustaining, in the public interest, proper conduct and high standards in the securities industry.

## Title

It is proposed that the new body should be called 'The Council for the Securities Industry'.

## Objectives

The principal objectives of the new body would be:

- (a) To maintain the highest ethical standards in the conduct of business within the securities industry.
- (b) To keep under constant review the evolution of the securities industry, market practice and related codes of conduct and to scrutinise the effectiveness of existing forms of regulation and the machinery for their administration.
- (c) To maintain arrangements for the investigation of cases of alleged misconduct within the securities industry and breaches of codes of conduct or best practice and to keep these arrangements under review.
- (d) To initiate new policies and codes as necessary concerning activities in the securities industry other than those properly within the domestic province of each individual constituent member.
- (e) To resolve differences on matters of principle between constituent parts of the securities industry.
- (f) To consider the need for changes in legislation affecting the activities of the securities industry and to examine any proposals for such legislation.
- (g) To ensure liaison with the European Commission on securities industry matters and the implementation of the EEC Capital Markets Code of Conduct.

## The Council

The Composition of the Council would be as follows:

The Chairman and Deputy Chairman would be appointed by the Governor of the Bank of England. The Chairman of each of the following bodies would be invited to serve on the Council or to nominate an appropriate senior person to represent him.

The Accepting Houses Committee  
The Association of Investment Trust Companies  
The British Insurance Association  
The Consultative Committee of Accountancy Bodies  
The Committee of London Clearing Bankers  
The Confederation of British Industry  
The Issuing Houses Association  
The National Association of Pension Funds  
The Council of the Stock Exchange  
The Unit Trust Association

In addition the Chairman of the Quotations Committee of the Stock Exchange would be an *ex officio* member of the Council; representation would also be invited from the foreign banks in London and from licensed dealers in securities.

The Governor of the Bank would nominate three lay members to the Council as representatives of the individual investor and the wider public interest. The Bank of England would also have a seat on the Council and further members could be co-opted from time to time if that seemed desirable.

It is anticipated that the Council would meet in full session as often as required, and at least once a quarter on a regular basis.

The detailed work of supervising the securities industry would consist of:

- A the framing and amendment of codes of conduct and the consideration of proposed UK and EEC legislation;
- B the administration and enforcement of (i) the take-over code and (ii) any other codes and practices that may be established.

A For the first of these tasks a *Markets Committee* of the Council would be set up which would subsume the work of the City Working Party in reviewing and drafting take-over codes.

The members of this Committee would be drawn as appropriate from the membership of the Council and might also include other members appointed from the interests represented on the Council. It would meet as required and might from time to time appoint sub-committees, to which experts could be co-opted, to examine specific issues, e.g. proposed new legislation.

The purposes of the Committee would be:

- (i) to prepare as appropriate new or expanded codes of conduct or best practice in the securities industry for consideration by the Council;
- (ii) to keep such codes under detailed review and to recommend to the Council clarifications, modifications and improvements as appropriate;
- (iii) to keep under detailed review existing and proposed legislation affecting the securities industry and to comment to the Council as appropriate;
- (iv) to examine differences on matters of principle between constituent parts of the securities industry, particularly with regard to interpretation of codes of conduct or best practice, and to seek to resolve them, referring to the Council in case of need;
- (v) to liaise with the European Commission on detailed matters relating to the implementation of the EEC Capital Markets Code of Conduct and to report to the Council as necessary;
- (vi) to keep under review the structure and effective functioning of securities markets and to report to the Council as necessary.

The Markets Committee would be the body which the Stock Exchange would consult when contemplating major changes in the listing requirements (a rôle undertaken in recent years by the Stock Exchange Liaison Committee). The right to grant official listing and permission to deal would remain with the Stock Exchange. Disputes which might arise in connection with the interpretation of particular Stock Exchange listing requirements would continue to be settled in accordance with existing arrangements within the Stock Exchange. Where it appeared that a particular ruling carried implications of sufficient substance and general application for the future, it would be open to any organisation on the Council, or a lay member, to raise the principle with the Markets Committee and, if desired, in the Council.

B (i) The interpretation and enforcement of the Take-over Code would remain with the *Take-over Panel* which would become an arm of the Council but which would be constituted and operate essentially as at present.

The decisions of the Panel on the interpretation of the Take-over Code would be final and not subject to appeal. The Panel would continue to work closely with the Quotations Committee and the Council of the Stock Exchange. The Quotations Department would continue to undertake preliminary enquiries into circumstances of unusual price movements and into domestic Stock Exchange matters. When initial enquiries suggested that a breach of the Take-over Code had occurred, the matter would be referred to the Panel. The Panel would make a quarterly report to the Council on its work and would keep in close touch with the Markets Committee on possible amendments to the Code.

(ii) When the Council, in the future, agreed to a new code, or endorsed a practice, arrangements would have to be made for its interpretation and enforcement. This could be entrusted to the Take-over Panel or other arrangements might be made.

If the Council received information which led it to believe that breaches of such a code or cases of alleged malpractice or misconduct had occurred which could not more appropriately be dealt with under domestic codes of individual members of the Council, it would decide whether an investigation should be entrusted to the Panel or whether an *ad hoc* investigation panel should be set up. *Ad hoc* panels set up under this provision would report their findings to the Council.

### Appeals

The Appeals Committee of the Panel would continue to hear appeals from decisions of the Panel of a disciplinary nature in the field of take-overs and mergers. The Appeals Committee would also hear appeals on other disciplinary decisions of the Panel or of any other body of like nature that might be established.

### Secretariat

A Secretariat would be formed to serve the Council and the Markets Committee and other administrative or investigatory panels as might be set up.

### Authority and sanctions of the new body

The Council would be a voluntary body consisting of persons, bodies or associations which had subscribed to the concept of self-regulation. Its authority would stem, as in the case of the Panel, from the commitment of the bodies represented on it to support its activities and its codes and respect its rulings. The bodies represented on the Council would recognise that the Council would have the right to make recommendations bearing on any aspect of the activities of their members relating to the securities industry. These bodies would also publicly recognise that such recommendations, although without legal or binding force, could not in practice be ignored.

The wide-ranging powers available to the Stock Exchange and the other sanctions which have been so effectively deployed by the Take-over Panel in recent years would remain available for use in appropriate cases. Other organisations represented on the Council would stand ready to examine their own procedures to ensure if necessary that additional action might be taken to assist the Council in making its recommendations effective.

### Financing

The new organisation's costs would be met from two sources. In the first place a substantial contribution would be made by the bodies represented on the Council, as has been the case with the Take-over Panel. Secondly, however, partly because it would be impracticable to finance the new Council entirely from contributions from the associations represented on it, it is considered appropriate that some part of the required finance should be drawn from the users of the market and broadly in proportion to the use they make of its facilities. It is proposed, therefore, that a levy, initially set at 60p, should be made on contract notes relating to transactions in UK securities effected both inside and outside the central market. In order to protect the smaller private investor from an increase in costs it is proposed that only transactions above £5,000 consideration money should be chargeable. Stock Exchange business would provide the greater part of the levy and most of the costs of collection would thus fall on Stock Exchange firms. Other associations represented on the Council would seek an undertaking from their members to pay the levy on transactions effected by them.

Examination of the detailed implementation of such a levy is taking place but initially the direct contributions of member bodies would be available so that the new organisation might commence operating without delay.

Bank of England,  
March 1978.