International regulatory co-operation post-Barings

By Executive Director Michael Foot.

Regulating the world's financial markets is becoming ever more complex, so co-operation between banking supervisors and those who regulate other financial services is vital. This was spelt out by Michael Foot in his first public address (summarised below) as the Bank of England's newly appointed Executive Director for Supervision.

Mr Foot was addressing members of the International Swaps and Derivatives Association at their annual meeting in San Francisco on 7 March 1996.

The objectives of national regulatory bodies are not always uniform and the objectives of banking regulators, securities regulators and those who regulate insurance markets often differ.

Markets are getting ever more global; boundaries between financial products are becoming blurred and modern financial businesses are becoming increasingly complex, both in terms of the instruments used and the diversity of ways—and places in which—they are used. The institutions and their management structures are also becoming much more complex.

The Barings case particularly underlines the points:

- that the control culture of an organisation is critical and if this is not right a whole group can be brought down by the activity of an overseas subsidiary or associate, even though it is supposedly small and does not take risks; and

- that if some regulatory body had pooled the information available to the exchanges in which Barings was operating, the problems would have come to light earlier.

In the Daiwa case, information available to the home supervisor had not immediately been shared with the host regulator.

Primarily as a result of these two cases, regulators worldwide are addressing with renewed vigour the questions of what information needs to be passed between them, how it can be obtained in a timely and efficient manner (and without imposing unacceptable costs on the industries involved) and to whom it should be passed. That has to be good news, as is the fact that insurance as well as banking and securities regulators have become involved.

I recommend 'a clear lead regulator for each group' as is the case with banking supervision. This lead regulator would facilitate the exchange of information among the regulators of individual entities in the group and would take the primary role in managing any emergencies. The detail needs to be filled in.

In conclusion I identify five key elements:

- trust and confidence built up by regular contact and co-operation would help to ensure that decisions are implemented;

- even where trust and goodwill exist, there are many current legal and other barriers to the passage of information—these need to be overcome;

- there may have to be some appraisal of particular points of difference in national law, for example in the treatment of liquidations;

- much has to be done to get present standards of best practice introduced uniformly; and

- the private sector should contribute to the integrity of financial markets as for example ISDA does with its Master Agreements.