Reform of The London Stock Exchange: The Prudential Issues

Introduction

On 27 October 1986 the final vestiges of the structure of minimum fixed commissions that had applied on the London Stock Exchange since 1911 were abolished and the single capacity trading system gave way to dual capacity trading. This event, colloquially termed the "Big Bang", represented the culmination of a series of reforms (*see* Appendix) dating back to April 1982. The irresistible pressures that combined to force through such changes — such as the competitive threats posed by foreign exchanges and off-market operators, the demands of institutional investors, the 1983 "accord" between the Government and the Stock Exchange and technological advance in computing and information systems — are readily identifiable and the potential benefits for both the domestic securities market and the economy (in terms of increased invisible earnings, enhanced prospects for employment etc.) are clear. Doubts, however, can be legitimately cast on the ability of the existing supervisory framework, despite the advances incorporated within the Financial Services Act, to satisfactorily deal with the wide range of potentially-significant prudential issues that have been created.

The prudential issues

Monopoly power and foreign dominance. Apart from the problems associated with computerised dealing, such as the unreliability of price dissemination, inadequate trade reporting, inefficient settlement systems and the possibility of computer failure (witness the March 1986

débâcle in the traded options markets), high on the list of concerns is the fear that the securities market will eventually become dominated by a few, very large, internationally-diversified securities groups. This, in turn, would create two dangers: one, that the effective monopoly power gained by the emergent "universal banks" might be used to the detriment of the consumer (*i.e.* the investor); and two that, in so far as effective control of the group rested in foreign hands — which is quite conceivable given foreign operators' prior experience with deregulated markets and their superior capitalisation — the UK would suffer.

The concentration argument critically hinges on the belief that economies of scale[1] and scope[2] will favour agglomeration at the expense of specialisation but this, of course, need not necessarily prove the case (although the October 1986 ruling that VAT will not be levied on broking commissions generated by transactions between operators within the same subsidiary of a group does certainly provide conglomerates with a competitive advantage over agency brokers). The arguments in favour of diversification embrace: the convenience and cheapness, in terms of lower travelling and search costs, to the customer of one-stop financial "supermarkets"; the economies in credit assessment, marketing and advertising reaped by multi-product financial intermediaries; and the reduction in risk, technological set-up costs and costs associated with spare capacity secured through diversification. Arguments suggesting the existence of a natural limit to the diversification trend, however, emphasise the following: the limited profitability of diversification (although "predator-pricing" policies might conceivably be used to establish a monopolistic position) resulting from the intensification of competition, the existence of limited opportunities for securing economies of scale and scope and the managerial diseconomies likely to be experienced;[3] consumer resistance; cultural barriers; and the existence of opportunities for co-operative ventures (Lewis, 1985).

Concern at the possibility of foreign dominance relates to fears that the UK's share of the global securities market may suffer, with concomitant implications for the balance of payments (due to depleted

[1] Economies of scale exist when lower unit costs can be secured by increasing production of a homogeneous product.

[2] Economies of scope exist when two or more goods can be jointly produced at lower cost than the combined cost of producing the same quantity of each good separately.

[3] Previous experience of diversification by UK financial intermediaries tends to support this argument. For example, both the move by finance houses into property lending in the mid-70s and, more recently, by the banks into medium-term sovereign lending proved far from profitable for many.

invisible earnings) and employment, and that supervisory problems might be intensified. For example, foreigners might prove less amenable to moral suasion, as is often exercised in the activation of "lifeboat" support to rescue ailing financial intermediaries, and the authorities would undoubtedly be far from happy at the prospect of foreign securities houses dominating the primary gilt market, thereby determining the UK government's long-term borrowing costs.

International supervisory harmonisation. Another cause for anxiety is the lack of harmonisation of national supervisory systems (and, indeed, listing and disclosure requirements and clearing and settlement mechanisms), with the UK generally dictating the pace of deregulation to the rest of the world. Admittedly, deregulation of commissions has been slow to materialise in the UK but the lack of restraints imposed on diversification by financial intermediaries operating in the UK contrasts sharply with the systems operating in the US (*e.g.* where the Glass-Steagall Act enforces the separation of investment and commercial banking), Japan (where the equivalent of the Glass-Steagall Act is Article 65 of the securities and exchange law), Canada and elsewhere. Unless a greater degree of harmonisation or compatibility in approach is introduced, *à la* Basle Concordat style (which governs international banking), there is the risk that some trading operations will go unregulated, that some malpractices (*e.g.* 'insider trading") will prove more difficult to stamp out, that competitive inequities will be created (*e.g.* as a result of the imposition of differential capital requirements, a common feature in the banking industry, or of the differential application of barriers to entry) and that "competitive deregulation" will drag down supervision to the lowest common denominator as the need for effective supervision is sacrificed to the desire to preserve market share.[4] In the process, the stability of both the domestic and international financial systems will be threatened. The internationalisation of the securities market, technological advances in information technology, the blurring of the distinction between bank and capital finance (the so-called process of "securitisation"), the relaxation of exchange con-

[4] A topical example, which serves to illustrate the point, is the consideration presently being given by the New York Stock Exchange to an amendment of its rule inhibiting the short selling of stocks. The purpose of the rule is to restrict the manipulation of share prices by allowing short selling only when the previous trade resulted in a price increase. The pressure for change can be directly attributable to the lack of any similar rule in the rule book of the London Stock Exchange, a fact which has tempted some New York securities firms to circumvent the restriction by putting the deal through London.

trols and the existence of impediments (*e.g.* secrecy laws) to international policing all serve to increase the risks involved. Although the International Association of Securities Commission is already exploring ways in which enforcement of domestic securities laws can be facilitated through international cooperation and agreement, the current pace of change necessitates the establishment of a new and less unwieldy forum at which the issues can be debated and solutions found.

Some progress, fortunately, has been made on this front. The first breakthrough was the agreement reached in May 1986 by the US and Japanese securities regulators to share information on fraud and insider trading issues. This resulted from the Securities and Exchange Commission's (SEC) determination to pursue fraudsters and miscreants wherever they operated from and followed on the "understanding" reached with the Swiss authorities in 1982 concerning access to banking records of suspected insider dealers (a similar agreement was concluded with the Cayman Islands in July 1986). The UK, too, has played a part with the signing by the Department of Trade and Industry (DTI) of a "memorandum of understanding" with the US regulatory authorities responsible for the securities and futures markets, the SEC and the Commodity Futures Trading Commission (CFTC) respectively, in September 1986. Under the agreement, which is to be followed by a more formal mutual assistance treaty and similar bilateral agreements between the UK and other countries (notably Japan and European countries), a framework for the confidential exchange of information on suspected insider-dealers, fraudsters, market-manipulators and breaches of national supervisory regulations was established. Finally, the International Federation of Stock Exchanges revealed in September 1986 that it was examining ways of improving the effectiveness of international securities business regulation. Greater coordination and co-operation between exchanges was foreshadowed, including the exchange of information.

Capital adequacy and managerial competence. Further issues relate to the assessment of the adequacy of capital and managerial skills (Jacomb, 1985) in relation to the new risks that will be encountered. The specification of "appropriate" capital requirements in particular will sorely tax the regulators as they have little evidence on which to base their judgements. Too "conservative" an approach will risk driving business away from London and damaging the prospects of domestic operators whilst too "liberal" an approach risks undermining the

effectiveness of investor protection. Similarly, vetting of the managers of authorised businesses as "fit and proper" persons under the Financial Services Act fails to ensure that sufficient management skills are possessed to meet the demands of the new market place. To what extent should investors be protected from honest incompetents? The answer wouldn't matter so much if casualties prove to be light, but given the widely forecast (even by the regulators) high level of carnage there must be a risk of political backlash against a system which, even allowing for the provision of modest compensation (the Securities and Investment Board (SIB) has mentioned a figure of £ 30,000), fails to ensure that adequate training is given — examinations leading to qualifications are not to be made compulsory.

Management of fallout. The prospect of heavy casualties, even should trading volume explode after the "Big Bang" in October 1986, in line with the American experience, or as a result of the abolition of Stamp Duty (it was cut by a further ½%, to ½%, in the 1986 budget) (Bank of England, 1985), raises the sticky question of how exit from the industry will be managed. Although the approach adopted will, to a degree, be determined by the extent of possible cross-contamination within conglomerates (*see* below), the theory of "contestable markets" (Baumol, 1982), demands that exit be made as easy as possible, in the interests of optimal resource allocation. The existence of the Compensation Fund will facilitate this but whether or not regulators will ruthlessly enforce the principle of *caveat emptor* above the £ 30,000 level (this figure is likely to be raised) remains to be seen.

Conflicts of interest. With the trend towards further agglomeration within the financial system continuing remorselessly the stage is set for a dramatic increase in the number and scale of conflicts of interest that financial intermediaries will have to face. Conflicts of interest are nothing new, of course, the following examples serving to indicate the range that already existed within the UK before "Big Bang". Investment and unit trusts are typically managed by an issuing house, which faces the temptation of using the trust as a "dustbin". Clearing banks which provide investment advice and undertake investment management whilst also underwriting new issues are open to the charge that their advice may not be impartial (this is also the case where they sell life insurance but only receive commission from certain insurance companies and on certain types of policy). They are also in a position to benefit

from information gleaned from their corporate finance and lending activities, as are merchant banks. Nor are broking firms immune. They are widely involved in discretionary fund management and the provision of investment advice,[5] and also perform corporate finance and issuing functions. The middle two activities allow firms to boost fund performance by, for example, dumping poorly-performing stock onto unsuspecting investors or taking advantage of information (*e.g.* on takeovers) gathered in the corporate finance division. Additionally, the provision of investment advice might be used to boost commission income (*e.g.* by biasing it towards securities which are traded on the Exchange or by the encouragement of excessive trading). As for the banks, fund management and issuing activities are also potentially in conflict.

The traditional form of regulation, the compartmentalisation of market participants enforced through restrictions on business activities and other barriers to entry, dealt with the issue of conflicts of interest fairly effectively but only at the cost of a reduction in competition and innovative zeal which impaired the competitive position of domestic operators in the international arena and seriously misallocated resources. It often resulted in the separation of principals from agents, for example jobber from broker, bank from money broker and broker from underwriter under the 1982 Lloyd's Act, although the practice was not applied universally — certain markets (*e.g.* the Eurobond, over-the-counter, commodities and futures market) and activities (*e.g.* the fund management and issuing activities of banks) escaped attention. Thus, the single capacity system, which had operated on the Stock Exchange since 1911, was held up as the best possible means for protecting the investor through elimination of the main conflict of interest facing brokers — the need to maximise earnings whilst maximising the utility of investors. Under single capacity, there is no incentive for the broker to seek other than the best available bid or offer price from jobbers for clients, a situation reinforced (believers in the "link theory" would say sustained) by the imposition of fixed commissions which provided a level of remuneration that discouraged brokers from either seeking a dealing capacity or "cutting corners", to the detriment of investors. Detractors, however, would argue that single capacity was a device used to preserve the existing structure of the Stock Exchange for, without

[5] A Bank of England survey of fund management (*BEQB*, June 1985, p. 212) estimated that Stock Exchange brokers managed funds of over £ 14bn. in value as at end-1984 and advised on the structure of portfolios totalling £ 32bn.

fixed commissions, the quest for a dealing operation would have necessitated the acquisition of more capital, made difficult by ownership restrictions, and threatened the position of jobbers. Whatever the strenghts of the competing arguments, external developments rendered the debate sterile, and new methods of regulation and approaches to dealing with conflicts of interest had to be found to cope with the new environment.

An appeal to the *law* is one obvious avenue to explore but the low level of success recorded in the prosecution of insider dealing since it became a criminal offence in 1980 is a poor recommendation for further statutory amendments. Nevertheless, the law of agency, based on the principle that an agent may not make a hidden profit when acting on a fiduciary basis, still provides a degree of protection for the investor and will continue to do so after the "Big Bang" despite the protestations of those that argue its rigid application will erode most of the benefits (greater liquidity and economies of scale and scope) to be gained from conglomeration.

A second approach, and one preferred by the majority of practitioners, is simply to extend the use of *Chinese Walls* to cater for the emergence of new conflicts of interest. Chinese Walls are defined in The Licensed Dealers (Conduct of Business) Rules 1983 as "an established arrangement whereby information known to persons in one part of a business is not available (directly or indirectly) to those involved in another part of the business, and it is accepted that in each of the parts of the business so divided decisions will be taken without reference to any interest which any other such part or any person in any such part of the business may have in the matter". They are already widely used[6] by banks to "separate", either by physical location or through separate incorporation, the functions of fund management, investment dealing and corporate finance but are in stronger demand now that banks and brokers operate a securities trading operation. The main argument in favour of the sufficiency of "Chinese Walls" for investor protection is that it is in the firm's commercial interest to ensure that breaches do not occur for fear of losing client confidence but, marshalled against this, are the arguments that internal monitoring arrangements might not prove capable of picking up breaches, that even if breaches were

[6] But there is disagreement on how widely they should be applied. For example, it is believed by some that trading in the securities of a firm receiving advice on mergers or takeovers, either for one's own account or for fund management purposes, should cease altogether but others counsel that such action would be too draconian.

discovered they would probably not be disclosed to the outside world and that the potential gains might easily outweigh the risks of detection, exposure and disciplinary treatment (often involving derisory fines).

A less popular approach amongst practitioners, but one which might reap dividends, is the *avoidance* of conflicts of interest altogether. Such a philosophy has certainly been advanced by Cazenoves, the stockbroker, to justify its continuing independence. On similar grounds, both merchant bankers S.G. Warburg and the US insurance company Aetna Life perceive strong marketing advantages in maintaining the independence of investment management from market-making and corporate finance within their financial services groups, although, of course, this is a long way from actually divesting operations creating potential conflicts of interest. The announcement, in April 1986, by stockbrokers Hoare Govett that it was considering hiving off its pension fund management business is the latest example of management attempts to avoid conflicts of interest.

Disclosure and *exposure* present other means for the handling of conflicts of interest. Through the proper disclosure of all relevant information to clients the latter are able to decide whether or not the conflict is untenable. In the brave new world it is likely that "customer agreement letters" will be used to formalise relations with clients, clearly setting out the fees, charges and the capacity in which the firm may act. The existence of Chinese Walls will not affect the requirement to disclose material interests.

Finally, a number of *further safeguards* can be provided to the investor as a means of limiting exposure (or compensating for any losses incurred) to potentially-damaging conflicts of interest. These embrace: the setting up of "compliance departments" by firms (a common, although not compulsory, feature of the US system) to ensure that the internal rules and any externally-imposed or advised codes of conduct are meticulously followed; the application of a "best execution" rule, whereby a broker-dealer will only be allowed to meet a customer's demand for stock from his own books if he can demonstrate that his price is the best available in the market; the provision of an audit trail by the Exchange's new dealing system, which will incorporate electronic price surveillance programmes allowing records on "real-time" quotation changes to be matched against reported trades;[7] and, the ultimate fall-back, the provision of adequate insurance or compensation arrangements.

[7] The new dealing system, the Stock Exchange's Automated Quotation system (*SEAQ*), will be monitored by the Stock Exchange's surveillance department. Clients will be able to complain to this department or direct to the SIB if they feel they have been cheated, and "freeze frames" of the *SEAQ* screen for the time shown on a customer's Advice Note (showing the details of transactions) will be available. Records of quotes and trades will be retained for five years.

Regulators' approach to conflicts of interest

During the course of the evolution of the new supervisory framework, the issue of conflicts of interest had been addressed by the Stock Exchange (November 1984), the Council for the Securities Industry (CSI) and the Government (both in January 1985). The draft proposals set out by the Exchange for the handling of conflicts of interest incorporated the following: (i) firms should ensure that all handling of clients' business is fair and consistent with best market practice; (ii) a firm should disclose if a member has a material interest in a proposed transaction before it carries out the deal for a client; (iii) a firm controlled by an issuer of a security, or controlling an issuer of a security, must disclose the relationship before carrying out a deal for a client; (iv) a firm should not invest in a unit trust managed by it or one of its staff unless the connection is revealed to the client before the investment; (v) no firm or its registered representative should effect for clients a transaction which is excessive to generate commissions; (vi) a firm must disclose the capacity in which it is acting; (vii) a firm receiving an order from a client in "normal market size" may not buy for its account from its client nor sell for its account to its client unless it can produce a better transaction price to him than by effecting an agency transaction with the market maker; (vii) where a firm combines broking, fund management and market making, it should not make representations to clients unless it believes that a market in a security exists outside its own interests; it should establish Chinese Walls between, and separate the functions of, corporate finance and securities trading, and it should appoint a "compliance officer" to ensure that the recommended procedures are observed.

The CSI's draft code of conduct on the management of conflicts of interest was similarly far-reaching. Firms undertaking investment business should identify and disclose conflicts of interest and, where the conflicts make it impossible to transact business in the best interests of the client, they should refuse to act. Firms should also monitor the

effectiveness of their Chinese Walls and other safeguards used and observe the "best advantage" rule (*i.e.* the placing of clients' interests before their own) when transacting business. Finally, full and fair disclosure of all material facts and interests should be made to a client before any transaction is entered into or advice given.

The Government's proposals, outlined in a White Paper, represented a distillation of the above views. Total reliance on Chinese Walls within conglomerates was not accepted as they are designed to restrict information flows and not the conflicts of interest themselves. Accordingly, a number of safeguards were proposed. A principle of "fair trading" was recommended as a means of prohibiting unfair practices and ensuring good market practice. A duty of "skill, care and diligence" was also recommended, the duty of care to reflect the responsibilities undertaken. Thirdly, a duty of "disclosure" was proposed. This would require practitioners to disclose any material interest in advance of undertaking the proposed transaction, the capacity in which they would act, the fees they would charge, the remuneration they might receive from other interested parties and any connection they might have with other interested parties. When a firm acts as an agent for a client, the general rules of agency and the consequent fiduciary duties should apply. A firm is not expected to put itself in a position where its duties to the client conflict with its own interests or with its duties to others unless the circumstances have been explained to, and accepted by, the client (the Government is thus not willing to go as far as the CSI and prohibit transactions in such situations). Finally, in resolving specific conflicts of interest, application of a "best execution" principle, whereby all instructions from clients must be executed to the clients' best advantage, and a "subordination interest" requirement were recommended.

With the benefit of being able to draw upon the above three documents, the Securities and Investments Board (SIB) published its own draft "conduct of business rules" in February 1986.[8] These were designed for operation by bodies seeking authorisation as an investment business direct from the SIB and to act as standards by which the rulebooks of potential "Self-regulatory Organisations" (SROs) could be assessed before authorisation is granted.

[8] The SIB's revised conduct of business rules, which introduced a new category of investor — the "experienced investor" — for whom some of the rules could be relaxed and clarified what information had to be included in customer agreement letters, were released in September 1986.

In an attempt to eliminate malpractice the SIB requires that a firm, before performing any service for a client, does its best to get to know its client's circumstances first so that services provided are "appropriate" to the client's requirements and situation. Having ascertained this, the firm is then free to transact business for its client, but only subject to certain rules which are designed to protect the investor where conflicts of interest might arise. Of particular importance is the application of the "best execution" rule and the rules governing the circumstances in which "dual capacity" trading may be undertaken. Other rules require disclosure of a firm's material interests in a transaction, unless "appropriate" Chinese Walls are in operation, and subordination of the firm's interests to those of their customers. To ensure these rules are complied with every investment business has to establish and maintain procedures for supervising each partner, director, employee and representative and to review the effectiveness of their supervisory procedures (relating to their British offices) at least once a year.

The regulation of financial conglomerates

Aside from the handling of conflicts of interest, the Government's approach to the prudential regulation of financial conglomerates raises a number of further important issues. Like the Bank of England's regulation of primary dealerships within the new gilt market, the Government's basic philosophy is to regulate by function where practicable, forcing the separation of different activities (*e.g.* deposit-taking, market making, insurance etc.) into distinct companies, each having its own "dedicated" capital which cannot be readily withdrawn by the parent. Each company is then to be authorised by the appropriate regulatory body and subject to capital and other prudential requirements to ensure that risk exposures are adequately contained.

Although this approach might minimise the losses incurred and limit cross-contamination generally within the group, it does not deal with a loss of confidence crisis, the effects of which will be most clearly felt by the banking operation. Thus, even though, legally, a bank is able to walk away from a failed securities wing, the market and the general public may ensure that wider contagion ensues. Moreover, the Bank of England has made it clear that it will hold the bank morally responsible

for any losses incurred by securities affiliates. Given this situation, which serves to render the use of dedicated capital a costly superfluity, systemic risks, with the potential to destabilise the international financial system as a result of exposures incurred through the international interbank market, will not be catered for. This suggests the need for a consolidated approach to supervision which is presently only carried out by the Bank of England in respect of the capital adequacy of a "banking" group.

A second problem encountered by the espoused functional approach to regulation is that it is institutions which fail and therefore institutions which require supervision. This causes problems for the regulation of financial conglomerates because, for example, the authorities may find it necessary to preserve the existence of a diversified company, whatever services it is providing or functions performing, in the interests of preserving stability in the wider financial market or system. This brings us back to the issue raised immediately above, namely how "banking" status, with its attendant privileges and responsibilities, should affect the attitude of regulators in their assessment of capital adequacy for conglomerates incorporating "banking" operations.

The Financial Services Act

Investor protection, as secured under the Financial Services Act, should certainly prove more efficacious and apply more extensively than hitherto has been the case. Compulsory "authorisation", either direct by the SIB or by a SRO,[9] of those carrying on "investment business", the policing of tough codes of conduct, a centralised compensation fund and the introduction of tougher penalties to deter fraud and deceit[10] will combine to ensure this. The attempt to rationalise the supervisory regimes governing the activities of different financial operators in a

[9] Currently, five organisations are seeking recognition as SROs: the Financial Intermediaries, Managers and Brokers Regulatory Association; The International Stock Exchange; the Association of Futures Brokers and Dealers; the Investment Management Regulatory Organisation; and the Life Assurance and Unit Trust Regulatory Organisation.

[10] Although it should be noted that the clause in Section 44 of the Bill, dealing with the treatment of those who make a misleading statement or dishonestly conceal material facts, does not apply to statements made outside the UK, or made in the UK but affecting persons who are outside the UK, or affecting agreements entered into or exercised outside the UK (Business Law, *Financial Times* 20-3-1986).

manner conducive to maximising the benefits for the UK in the future global securities market is also to be applauded. Basic fears and nagging doubts, relating to both philosophy of approach and detail, remain, however.

First and foremost, critics will claim that the "insider trading" scandals that surfaced in London in the run-up to Christmas 1986 vindicate their stance in opposing the high degree of non-statutory regulation built into the new supervisory framework. The unsavoury events will be used as evidence to counter the Government's contention that a practitioner-based system operating within a statutory framework represents the most cost-effective means of strengthening investor protection in the wake of "Big Bang", and calls for the establishment of an independent, statutory commission along the lines of the American Securities and Exchange Commission will be resurrected. The Government, of course, can derive some comfort from the speed with which the new investigative and prosecution powers were brought into operation to help combat the problem but even its supporters must be having some doubts about the system's ability to endure many more scandals. The more perceptive had recognised this danger from the start and, for this reason alone, had canvassed for the alternative option — an independent, statutory commission albeit with the maximum degree of flexibility built into it. Whether or not the present system degenerates into this form remains to be seen.

On detail, the danger of placing such a heavy reliance on the use of Chinese Walls and the integrity of practitioners in the application of the "best execution" rule and the "subordination of interest" principle under the SIB's conduct of business rules have already been pointed out but other fears abound. These embrace the following: doubts about the supervisory authorities' ability to reduce the overlaps within the regulatory structure to manageable proportions; concern at the Government's failure to clarify the future role to be played by the Takeover Panel; fears of a prudential "overkill" which might lead to a loss of domestic market share (*e.g.* of Eurobond trading) or reduced trading; doubts about the adequacy of resources, both in terms of money and manpower, that will be committed to SROs (the collapse of McDonald Wheeler, a member of FIMBRA, in 1986 served only to heighten this fear); and, finally, concern at the damage to the financial system and the economy that might be sustained in the period between the Act receiving the Royal Assent — November 1986 — and the full implementation of its proposals and those of the SIB and SROs once established.

Summary and conclusions

Much has been made of the potential benefits to be derived from "Big Bang" by market users and the economy alike but far less attention has been devoted to the supervisory problems that deregulation of the domestic securities market has created. Admittedly, the Financial Services Act and the accompanying investor protection proposals address some of the issues but a lot is left to be desired. The regulation of financial conglomerates remains a hazy area of policy, with competition and foreign ownership issues still to be addressed. As a means of limiting contagion, the use of dedicated capital is seriously flawed, calling into question its retention and exposing the authorities' lack of policy instruments to deal with the systemic risks that may arise in the new environment. Lack of progress in the harmonisation of national regulatory systems only serves to accentuate the dangers created. And excessive trust appears to have been placed in the integrity of practitioners who are being asked to run the system, albeit within a statutory framework. In the wake of the renewed climate of suspicion created by the post-"Big Bang" scandals and investigations now would seem an opportune time to shore-up the securities market supervisory regime before the calls for a statutory commission prove irresistible.

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