

FINANCIAL TIMES

SIB seeks safeguards for investors' assets

Securities regulators yesterday proposed guidelines which, for the first time, will set minimum standards for the organisations responsible for the safekeeping of investors' assets.

The Securities and Investments Board, the City's chief regulator, has also confirmed that the law should be changed to require anyone offering these financial custody services to seek authorisation from regulators.

SIB, under its chairman Mr Andrew Large, estimates that the top 10 UK custodians have more than £700bn in assets under their care.

The SIB has been reviewing the question of custody in the wake of the collapse of companies controlled by Robert Maxwell, in December 1991. It emerged that more than £440m of pension scheme assets were missing and questions were raised about custodial arrangements for those funds.

Meanwhile, the collapse of

New standards on financial custody recommended

Barings pic in February 1995, which left more than £600m of client cash from its custodial arm frozen in Barings Bank, has increased pressure for better regulation.

The Institutional Fund Managers' Association, a trade association of fund managers - many of which operate their own custodial business - had long urged the regulation of custody.

In June, the board of Imro, the self-regulatory body for the fund management industry, voted to urge the SIB to regulate the business.

"There is one fundamental issue and we're delighted to see that the SIB has grasped it in its paper," said Mr Robin Clark, director of monitoring at Imro. Imro is likely to become the lead regulator for matters of custody.

The rules proposed by the SIB are intended as core princ-

ples. Self-regulatory bodies such as Imro will have to write detailed rules for the members to follow. "In large part, these are confirming the existing standards of best practice in the industry," Mr Clark said.

Mr Simon Thomas, a director at Thomas Murray, a London-based custody consultancy, said the new rules were likely to hasten the consolidation of the custody industry. "It is likely to push business towards the larger, better funded firms," he said.

However, the new rules were unlikely to do any more than commercial pressures were already doing, he said.

SIB's consultative paper seeks comments by November 3 from investors, custodians and private clients.

The proposed guidelines also require firms to stand behind any nominee company they use to hold client assets.

If nominees are regulated, clients may claim on the Investors Compensation Scheme in the event of a collapse and the move is likely to ease fears about the use of nominee accounts.

SIB proposes that fund managers who place their client's assets with a custodian have a formal agreement spelling out who is responsible for monitoring that custodian.

However, it has stopped short of requiring clients, such as the trustees of a pension scheme, to have a separate contractual agreement with its custodian.

Also, the guidance proposes that all custodians have adequate systems of internal control and that client accounts will have to be specifically designated as such. However, they need not designate the name of each individual client.

Under the proposed rules, all

client assets will have to be held in an "omnibus account" in which customers are co-owners of the assets, and firms may not use client assets for their own or other clients' accounts unless clear and express consent is obtained.

This means that custodians wishing to earn an extra fee by loaning clients' shares will need their specific permission.

However, life insurers, who are the largest stock lenders in the UK, will not be bound by the new rules because most of their investment activities fall outside the scope of the SIB.

Also, the SIB has proposed that custodians issue a "general warning" to their clients about the risks which are faced by sub custodians overseas. But it has stopped far short of an earlier suggestion that could have required custodians to be responsible for losses incurred by their sub custodians.

Norma Cohen

