PROFESSIONAL Pensions

FSA should unravel regulatory problem

BY ALISON STEED

FUNDAMENTAL flaws, previously present in the structure of the UK regulatory environment, should be ironed out as a result of the formation of the FSA, according to Simon Thomas, director of Thomas Murray.

When the custody regulations were drawn up, the Bank of England was regulating the cash side, and the Securities and Investments Board was dealing with securities — these need to be considered together in custody to ensure all-round security.

This division left the fundamental regulatory problem of different regulatory bodies having different objectives — highlighted by the Barings crash.

"What actually happened was that the SIB review carried out on custody regulations was restricted due to the limitations of its remit.

"Cash held by banking institutions falls outside the client money rules.

"The SIB did what it could within the scope of its mandate at that time," explained Thomas.

Now that the regulatory bodies are being merged within the FSA, all investment business and cash will be regulated by the same authority.

"I think it is a good thing for pension funds that the FSA has been formed, on the grounds that for the first time their regulatory body will have an active say in the asset safety of their cash."

Thomas added: "There are a number of issues out there which really remain a problem, but by bringing the two regulatory groups together the historical differences between the SIB and Bank of England regulatory objectives and scope should be resolvable.

"Hopefully, they can look at the cash and the securities together —not separately in the way they historically have done," he said.