

Setting the standards



I recently had the good fortune to listen to the Annual Lecture given to the Securities Institute at the Draper's Hall. Eugene Ludwig, formerly Comptroller of the US Currency, gave a talk entitled *From regulation to standards: what will it take to implement coherent standards for the global economy?*

His thesis was that regulation alone was not an adequate approach to controlling international financial behaviour. An attempt to control markets using a purely rule based regime is likely to fail since many fine minds will apply themselves to finding a legitimate way round the rules. These tend to be developed from crisis to crisis and to be exposed as inadequate when the next unexpected event occurs. A better, and complementary route, is the establishment of standards that are adhered to globally. Like all such grand visions, it is not so clear who sets the standards, and more importantly how conduct against those standards is overseen and deviators corrected, but the idea is seductive.

As I have previously mentioned in this column, I have been, for a number of years, a member of a working party organised by the FSA to establish how to define and control market abuse. It has probably done as well as any group could in defining what is, and is not, abuse, but it may have been much easier to have set a standard of conduct to be overseen by a group of practitioners which had universal acceptance. This was how the Bank of England worked successfully for many years. Provided the sanctions that are applied to correct behaviour are well judged to the seriousness of the breach in standards, the system can work well. London has the great advantage of having financial markets practitioners from around the world so that the over-sighting body could be free of local bias.

We have already seen the rapid rise of one set of global standards – those from the IASC which are giving us a world accounting standard. Although

here the rules based approach is necessary, the principles on which the rules are based are defined, enabling more rapid responses to changing practices. This was achieved by ensuring that the body developing the standards was transparent and had a wide representation drawn from regional standard setters, coupled with general acceptance of the system by those to be governed by the standards.

As one of the relatively few bodies representing the users of financial services I believe the Association should take a lead in this process by making our views widely known on matters that touch on our jobs. We were one of the earliest bodies to promulgate the full disclosure of a company's financial instruments, their effects and business purpose. A more recent example of our concern is our contribution to the debate on the minimum funding requirement.

The present MFR has exemplified the failure of a rules based approach to the control of pension funding. We are supportive of the statement of funding principles promulgated by the Association of Consulting Actuaries and you may see our response to the MFR issue by looking at our website on www.treasurers.org/what/atact/pressrel/prssrls0201MFR.html.

This is a good example where an agreed standard of performance, coupled with comprehensive disclosure requirements, looks superior to a rules based approach.

Those of you visiting the office at Ocean House will see that we have now occupied the whole of the ground floor as a consequence of the surrender of the sub-lease by our tenant. This will relieve the cramped first floor and give us room for expansion to support our increasing education efforts.

This month we are welcoming Argyris Argyrou as education intern; Rosalind Springer, as our Membership Secretary; and Tom Gordon as our Information Systems Manager.

You should by now have received your copy of the ACT's Directory and The Treasurer's Handbook 2001. If you have not, please let Ros know. We would also be grateful if you would check your own entry in the Directory and let us know of any changes, preferably by filling out the form by going to: www.treasurers.org/about/change.html ■

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