



Real risks from the regulatory structure

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The proposed redrawing of the regulatory structure in the UK has primarily focused upon the part of the FSA which will shift to the Bank of England and which will provide macroprudential regulation of the UK. While most can agree that this extra level of oversight should prove useful, almost no-one can articulate a clear view as to how it will work in practice. However I believe that the more serious issue looming relates to the other leg of regulation – the CPMA.

I see a grave risk that, in attempting to create a single body, we are conflating issues of consumer protection with the regulation of wholesale markets. This creates problems on a number of levels. Trying to create a single purpose for an organisation that straddles credit cards, payment protection insurance and wholesale financial markets appears fraught with danger. An organisation championing retail consumers might fail to provide the appropriate degree of understanding of oversight and risk assessments for wholesale participants. Equally, if the focus is upon wholesale financial markets then the necessary attention to consumer issues could be missed.

There is also the key matter of how Europe sees these issues. It is apparent that Europe clearly recognises the difference between retail consumer issues and those pertaining to wholesale markets and accepts a risk differentiation between the two. It would be wrong to see everyone as a participant in financial markets, no matter how tangentially. There is not a continuous spectrum, but instead clear distinctions that can and should be recognised. It is exactly because of this understanding that Europe has clearly separated out the retail consumer and the wholesale participant and has a regulatory structure to match. If we fail to recognise this reality and organise ourselves in a different way from the lead regulatory bodies then we will simply weaken our ability to influence events. If we in the UK attempt to tighten up the regulation of wholesale markets from the perspective of a consumer champion, this will inevitably lead to alternative markets being established in other European jurisdictions.

It is for these reasons that I think we should be very seriously advocating a single markets authority, that will have the clarity of purpose to ensure that the wholesale markets, in which the UK still dominates the rest of Europe, receives the correct level of oversight, while allowing a consumer champion to look after the interests of consumers in the products and services that they buy. Not acknowledging that there are more differences than similarities between consumer and wholesale interests risks not only serving both interests less well than if they were overseen by separate bodies but in addition will run significant risks that we will be poorly positioned to influence the coming debates in Europe.

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