

## Leading roles

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In October, Hector Sants and David Kenmir, both of the FSA, gave individual speeches partly exalting the virtues of more principles-based regulation.

There is a degree of irony that while the regulatory super-tanker has been going full steam ahead on course to reaching MPBR, nobody on board was aware of the period that lay ahead submerged in the form of Northern Rock.

Surprisingly, there have been few casualties as a result of the Northern Rock incident but the regulator has been quick to repair any damage beneath the waterline. More important, the regulator is committed to its course and uses the Northern Rock incident as supportive of MPBR.

Hector Sants said: “To be clear, I believe the recent events surrounding Northern Rock reinforce rather than contradict this need to focus on the outcomes and consequences of management actions rather than just on the compliance of the actions with a set of rules. We are not operating a ‘no fail regulatory regime’.

We recognise that a successful financial market place requires innovation and competition. In turn that means there will be failures. But a principles-based regime clearly, in our view, provides the best chance of achieving the requisite balance between the benefits of risks of innovation.”

But would prescriptive rules or MPBR have avoided this incident?

It is doubtful and the debate should not be about the methodology but about its application and this is down to three parties – the regulator, the industry participant and the participant’s senior management.

The move to MPBR is the FSA’s strategy and its success is dependent on all three parties undertaking their roles correctly.

However, when individual firms or their senior managers fail to meet standards the responsibility for taking decisive action rests with the regulator. That requires effective use of supervision.

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