

# **REGULATORY ARCHITECTURE TO ENHANCE DEMOCRACY AND BUSINESS ACCOUNTABILITY**

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# Regulatory Architecture

- **Regulation matters:**
  - Establishes norms, normalises practices
  - Empower/Protect citizens
  - Encourages good citizenship
  - Curbs malpractices
  - Holds culprits to account
  - Swift Retribution
  - Facilitates cohesive and stable society
  - Promote confidence in business

# Regulatory Architecture

- **Regulation can be**
  - **Hard** (legislation passed by parliament) –
    - can be enforced;
    - give rights to stakeholders
  - **Soft** (voluntary, codes of conduct) –
    - can it be enforced?
    - Any rights for stakeholders?
  - Most systems combine the two

# Regulatory Architecture

## UK Regulatory holes

- No enforcer of UK company law
- Shareholder v Stakeholder capitalism
- Power for private bodies
  - Accounting
  - Auditing
  - Insolvency
- Poor parliamentary scrutiny

## Regulatory Architecture

### **Regulators Galore**

- 700 or more UK regulators
  - 41+ for the finance industry
  - 25 for money laundering
  - 5 for Auditing
  - 5 for Insolvency
- Overlapping, duplicating, inefficient
- Passive
- Lacking public accountability

# Regulatory Architecture

## Finance Industry

- Lack of stability: BoE → FSA → FCA/PRA → ??
- Domination by the industry grandees
- Promotes/protects the industry
- Cognitive capture
- Ineffective in curbing predatory practices
- Plaything of politicians (BCCI, HSBC)
- Little representation of the masses
- Poor public accountability

# Regulatory Architecture

## **Finance Industry: Mired in Scandals**

- Banking crisis – every decade since the 1970s
- Interest/Exchange rate rigging
- London Laundromat; Tax avoidance/evasion
- Mis-selling financial products
- HBOS/RBS frauds
- Forging bank signatures
- Rip-off charges, interest on loans & overdrafts
- Dispute Resolution?
- Pension scheme liabilities dumped

# Regulatory Architecture

## **THE ROLE OF REGULATION**

1. Protecting consumers, taxpayers and the public in general from harmful practices.
2. Promoting stability, predictability and confidence in the system by addressing systemic factors which transcend the concerns of individual consumers and producers.
3. Not concerned with directly promoting the industry.

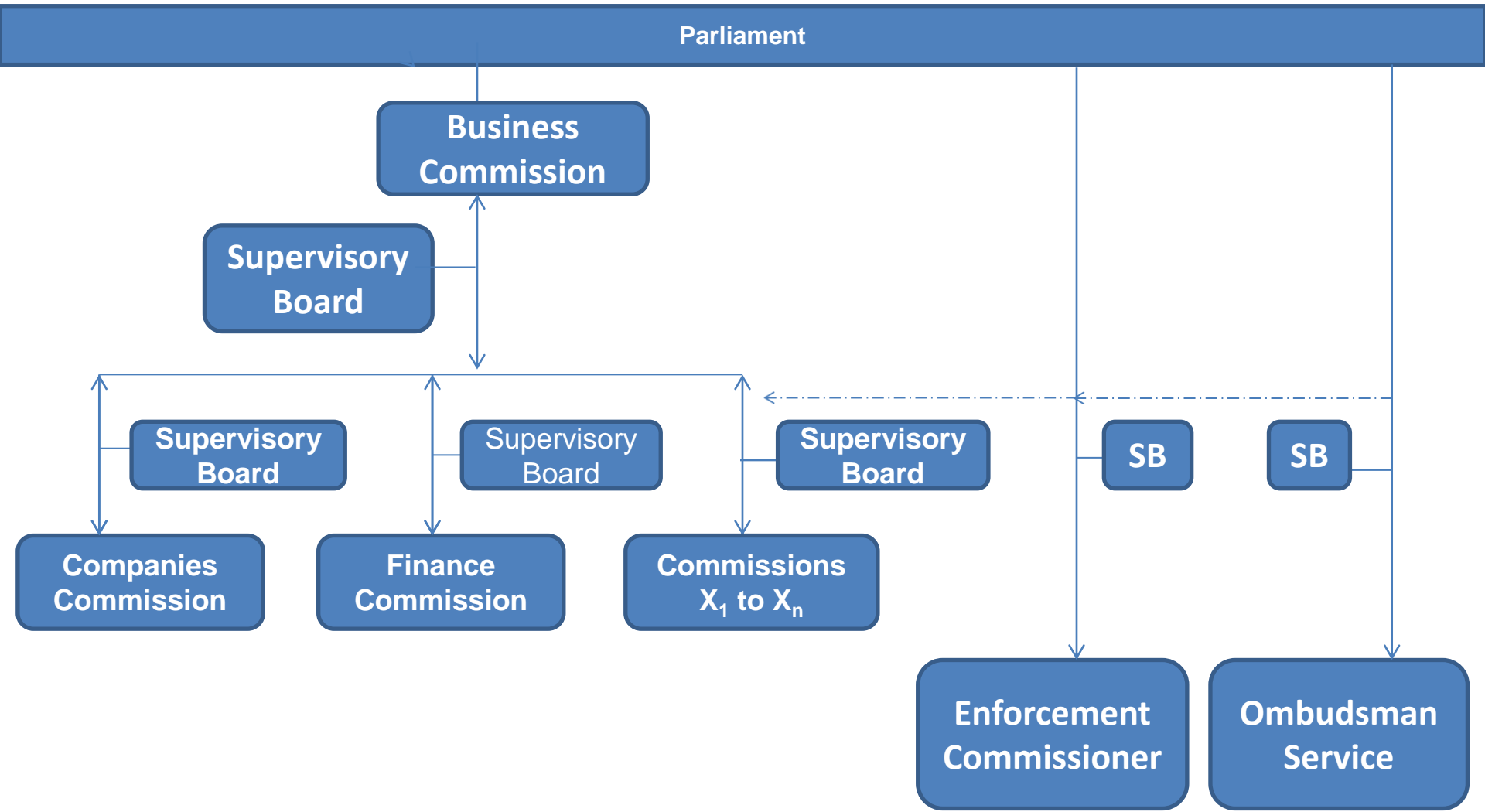


# Regulatory Architecture

## **Redesign the UK regulatory architecture**

- Prioritise enforceable rights for citizens, and transparency and accountability of regulatory bodies.
- Replace current regulators where feasible with a single well resourced body.
- No formal regulatory role for trade associations.
- Report directly to parliament.
- Normal people in control.
- Sunshine

**Figure**  
**Proposed Regulatory Architecture**



# Regulatory Architecture

- **Other Changes**
  - Test financial products before launch
  - Personal liability for directors
  - Regular review of the regulatory body/bodies.
  - Stakeholders on company boards
    - Employees
    - Consumers
  - Curb performance/profit related exec pay.

THANK YOU  
ANY QUESTIONS?

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