Efficiency and Effectiveness in Securities Regulation: Comparative Analysis of the United States Competitive Regulatory Structure and the United Kingdom’s Single Regulator Model

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1. Introduction and Summary

Does the form of regulatory institutions impact the efficiency and effectiveness of the regulatory structure? While the current status of the multi-level/multi-functional regulatory structure in the United States (US) has developed over many years, the recent adoption of a single regulator structure by the United Kingdom (UK) offers us opportunity to test the impact of form on substance. To what extent does each system efficiently and effectively monitor and enforce the regulations of the financial markets?

This paper evaluates the current status of the multi-regulator structure in the US and the single-regulator structure of the UK for a determinative assessment to what extent one system offers greater efficiency and effectiveness in achieving its stated mission compared to the other system. Should the US be considering a change in the current regulatory framework?

An analysis begins with a detailed account of the US regulation of the financial markets and its participants, with specific focus on the securities markets. Section 2 of this analysis examines the US regulatory scheme’s origins, development, goals, and major issues. Section 3 examines the UK’s recently adopted single regulator system and provides a thorough description of the systems basic structure, development, and major issues confronting the single regulator model. Section 4 evaluates each model based on the following three considerations: (1) safety and soundness in the markets through enforcement and prosecution; (2) costs and benefits derived from the regulatory structures; and (3) effectiveness and efficiency offered by each system of regulation. Section 5 concludes.

2. The United States Regulatory System

2.1. Introduction

The US is an interesting example of a single monetary area and a common market, combined with an extremely fragmented supervisory landscape and a complex regulatory system based upon federal law, initially enacted by Congress in 1933 and 1934, state “blue sky” laws, regulation by agencies, such as the Federal Reserve and the Securities and Exchange Commission
(SEC) with rule-making powers, and self-regulation organizations (SROs) with their own rules.\(^1\) Furthermore, Congress created the Commodity Futures Trading Commission (CFTC) in 1974 for the purpose of regulating the commodity futures and options markets in the US.\(^2\) Overall, “there are currently more than ten federal, state and industry regulatory bodies in the US.”\(^3\) This makes regulation in the industry not only complex, but many times, duplicative.

### 2.2. Development of the Current Regulatory Structure

The great stock market crash in October of 1929 and the ensuing depression the US fell into severely damaged public confidence in the capital markets. The political consensus at that time was that public confidence needed to be restored in order for the economy to recover and emerge from the Great Depression. To this end, Congress held hearings to identify the problems and engage in debate about possible solutions. The Securities Act of 1933 (1933 Act) and the Securities Exchange Act of 1934 (1934 Act) were the direct result of these Congressional hearings. Enactment of these landmark pieces of legislation was designed to restore investor confidence in the capital markets by providing further structure and government oversight in view of the shortcomings and inadequacies of the state “blue sky” laws.\(^4\)

Two simple notions delineate the purpose of the 1933 and 1934 Acts: (1) companies publicly offering securities for investment dollars must tell the public the truth about their businesses, the securities they are selling, and the risks involved in investing; and (2) people who sell and trade securities - brokers, dealers, and exchanges – must treat investors fairly and honestly, putting investors interests first.\(^5\) The 1934 Act established the Securities and Exchange Commission to enforce the new securities laws, to promote stability in the capital markets, and to protect investors in those markets. Together with the Investment Company Act of 1940 (1940 Act) - which regulates the organization of companies that engage primarily in investing, reinvesting, and trading securities, and whose own securities are offered to the investing public – the 1933 Act and the 1934 Act broadly establish basic principles and objectives for oversight of the securities markets. As these markets evolve technologically and offer new products, these

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three key pieces of legislation allow the SEC to engage in rulemaking to maintain fair and orderly markets and to protect investors by altering regulations, or creating new ones.\(^6\)

The laws and regulations governing the US Securities industry aim at achieving one simple goal for investors, disclosure. All investors, whether large institutional or small individual investors, should have free and open access to certain basic facts and information about prospective investments before the purchase of such investments, so long as they hold it. The disclosure made by publicly traded companies provides a “common pool of knowledge for all investors to use to judge for themselves whether to buy, sell or hold a particular security. Only through the steady flow of timely, comprehensive, and accurate information can people make sound investment decision.”\(^7\) The effect of this full and fair disclosure is more transparent capital markets for investors; which is vital for capital formation and success in the US economy.

### 2.3 Effectiveness in Regulating the Securities Industry

The SEC has supervisory authority over the key participants in the securities industry. These key participants include the securities exchanges, securities brokers and dealers, investment advisors, and mutual funds.\(^8\) A comprehensive securities law providing regulatory rules for both primary and secondary markets which is applicable to issuers, underwriters, brokers and investment advisers characterizes the American regulatory environment. Its complexity, multiplicity of regulators, and demands of federalism within the constitution further identify the American structure.\(^9\) “Crucial to the SEC’s effectiveness in each of the areas it oversees is its enforcement authority.”\(^10\) Enforcement action by the SEC, and other regulators in the US is perhaps the most effective tool for defining the scope of regulation in the American capital markets. “Authorities in the US have been very successful in prosecuting corporate scandals and, in doing so, recognizing that those at the heart of those scandals are criminals and deserve to be brought to justice.”\(^11\) Enforcement is the key method for regulation in the US capital markets. This is evidenced by the fact that over half of the roughly 3,100 SEC employees are within the Enforcement division of the SEC.

\(^{6}\) Id.
\(^{7}\) Id.
\(^{8}\) Id.
While the banking industry in the US is regulated primarily by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision, with supervisory authorities at the state level, the securities industry regulation is a combination of federal law, self-regulation, and state law. The SEC, a federal agency, oversees the exchanges and the National Association of Securities Dealers (NASD), which administers the federal system for the registration of new issues of securities. The exchanges themselves are SROs with powers to promulgate rules for member firms and listed companies. Moreover, the NASD is an SRO with powers – under the supervision of the SEC – to promulgate rules governing voluntary membership of broker-dealers in the over-the-counter (OTC) markets, such as the NASDAQ.12

“The US Congress intended to strike a balance between the protection of the integrity of the securities markets and the flexibility necessary to maintain an economically vigorous capital market.”13 The structure was also intended to balance the need for participation of the market professionals, achieved through SRO self-regulation and the need for an independent watchdog, the SEC.14 The American structure creates multiple levels of oversight and regulation which may have been intended to balance interests and protection of investors, but, in some instances, can be economically inefficient and wasteful. The economic waste involves multiple regulators initiating enforcement actions; thereby creating multiple layers of liability to firms and personnel that results in redundant fines and sanctions from more than one supervisory authority.

In addition to the competition the SEC faces from the federal and state courts, as well as SROs as lawmakers, the CFTC, the Department of the Treasury and the Federal Reserve Board compete with the SEC as financial regulators.15 This competition can be good because it creates debate regarding parameters of jurisdiction to regulate certain securities products and the industry. Thus, the competition should ultimately result in the products and industry being regulated by those who can most effectively and efficiently regulate each specific product or industry. Competition among regulators has its roots in constitutional federalism and involves conflicting philosophies with considerable overlap and inefficient duplication in the industry regulation. However, the main principle in American regulation for investor protection has always been a matter of dual federal and state regulation.16

13 Id.
14 Id.
16 Id.
2.4 Issues Facing the Future Development of the Securities Industry

Most current issues facing the American capital markets today are those relating to New York’s pre-eminence in the global financial services sector. New York has been losing vital ground to markets in London and Asia as the leader in global capital formation. For example, in 2005, only one of the top 24 Initial Public Offerings (IPOs) was registered in the US. Four of these top 24 were registered in London, as that market gains ground in the global financial services sector. The situation has gotten to a point now that New York has actually hired a consulting firm to issue a report to identify specific variables that are negatively impacting the US, specifically New York’s, financial services sector.

Four factors have been identified as requiring close attention moving forward: (1) the globalization of capital markets; (2) overregulation of our capital markets; (3) frivolous litigation in the US; and (4) incompatible accounting standards across the globe. Along with these factors, industry experts estimate that the gross financial regulatory costs to US companies are 15 times higher than in the UK.

Many issues the US currently faces can be linked to the Sarbanes-Oxley Act of 2002, which imposed strict guidelines for reporting, accounting and liability in the securities markets. The Sarbanes-Oxley Act mandated a number of reforms to enhance corporate responsibility, enhance financial disclosures and combat corporate and accounting fraud, and created the Public Company Accounting Oversight Board (PCAOB) to oversee the activities of the accounting profession. Sarbanes-Oxley has placed considerable stress on industry participants due to its civil and criminal liability potential evidenced by the aftermath of scandals at Enron and WorldCom.

3. The Single Regulator Model of the United Kingdom

3.1. Introduction

The UK’s model for implementation of a single regulator model was chosen for comparison over other European counties with this model, such as Germany or the Nordic countries, because London’s capital markets size and attraction in the world is more congruent with that of New York. The UK is also interesting because their move to a single regulator model

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17 Charles E. Schumer & Michael R. Bloomberg, To Save New York, Learn From London
18 Id.
19 Id.
20 Id.
was developed from a merger of about ten regulators. In addition, compared to other European models the UK single regulator system is more developed and tested and offers considerable consideration in comparison to the US model.

The current regulatory regime of the UK was borne out of the Financial Services Modernization Act of 2000. This single regulator, the Financial Services Authority (FSA), aims its activity at reaching a more efficient organization of supervisory activities, including a reduction in the costs of regulating itself. The operationally independent FSA became fully operational on 1 December 2001 with enactment of the Financial Services Modernization Act (FSMA).

In the five short years that the FSA has been at work, the “light touch” philosophy and approach to regulation has helped London become the world’s leading center for mobile capital.

Legal scholars in the UK attribute the adoption of the single regulator approach in supervision of the capital markets to three specific reasons: (1) the existing system was failing to deliver standards of investor protection and supervision that the industry and the public had the right to expect; (2) the two-tier structure of the UK regulatory system, under the Financial Services Act of 1986, was inefficient, confusing, and lacked accountability and a clear allocation of responsibilities; and (3) there was a need for a regulatory structure that would reflect the nature of the markets where the old distinctions between banks, securities firms, and insurance firms had become increasingly blurred.

3.2 The Structure of the UK Single Regulator Model

“The single regulator model acts as a three-peak regulatory model by objective, in which the two objectives of microeconomic stability – prudential supervision and investor protection – are assigned to a unique agency. Macroeconomic stability is left to the Central Bank.” The FSA was given authority by the FSMA for a wide range of rulemaking, investigatory and enforcement

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23 Margaret Cole, Speech, The UK FSA: Nobody Does it Better?
24 Id.
powers, and certain important responsibilities, including the ability to take action to prevent market abuse and to prosecute offenders for insider dealing.\textsuperscript{27}

A key structural difference between the US regulatory model and the UK model is that the UK model is not an enforcement-led regulator. The FSA focuses front line efforts of regulation on supervision and use of on-going relationships with authorized firms in the UK. Furthermore, the UK implements a risk-based approach whereby regulation is designed to align the FSA’s finite resources with addressing the big risks that matter most. This essentially means that the FSA accepts a “non-zero failure regime.”\textsuperscript{28} Accordingly, the FSA must therefore, accept that some violations of securities law can and will go wrong when regulating the 30,000 plus firms and 165,000 plus individuals under FSA supervision. The single regulator model in the UK emphasizes listing requirements in the capital markets and the importance of self-regulation by securities industry participants.\textsuperscript{29}

Four statutory objectives determine the umbrella the FSA operates under: (1) market confidence; (2) public awareness; (3) consumer protection; and (4) reduction of financial crime. Use of these basic principles encourages and fosters good business practice through the financial services sector recognizing firms’ duties to their owners and their customers. “The FSA believes that providing firms with the flexibility to decide more often for themselves what business processes and controls should operate so compliance with the FSA principles is secured.”\textsuperscript{30} Furthermore, the FSA operates under the belief that firms who commit to a set of outcome-based principles will be in the best position to judge the detail of how best to deliver those outcomes to the market. This hands-off approach assumes that firms can best figure out how they deliver fair treatment to their customers in a way that is aligned to their commercial objectives in terms of customer service and retention. This consideration accounts for the fact that just 280 people, eight percent of the staff, at the FSA deal with enforcement actions.\textsuperscript{31}

\textbf{3.3 Effectiveness in Regulating the Financial Services Industry}

The FSA has a duty to have regard to the international competitiveness in the UK markets. As such, the regulator is currently thought of in the international community as the

\textsuperscript{27} Margaret Cole, Speech, \textit{The UK FSA: Nobody Does it Better?}
\textsuperscript{28} Id.
\textsuperscript{30} Vernon Everitt, Speech, \textit{The FSA’s regulatory approach and raising financial capability through the workplace} (Executive Lunch, Birmingham, England, Sept. 14, 2006) (copy of transcript from FSA website)
\textsuperscript{31} Margaret Cole, Speech, \textit{The UK FSA: Nobody Does it Better?}
“thought leader”, always seeking new approaches to better regulation. This is demonstrated by the FSA’s deliberate regulatory shift to a more principles-based supervisory structure.\textsuperscript{32} The FSA’s decision to be a risk-based regulator is conscious and deliberate. Regular reviews of the amount of risk the FSA is prepared to accept are conducted to focus resources on those risks that the FSA considers to matter the most in the current regulatory environment.\textsuperscript{33} Three strategic priorities are considered in regulation by the FSA: (1) to promote efficient, orderly and fair markets, both retail and wholesale; (2) to help retail customers achieve a fair deal; and (3) to improve the UK’s own business capability and effectiveness.\textsuperscript{34}

Unlike the approach sometimes adopted by regulators in the US, the FSA firmly believes that regulators must be very wary of overregulation and the damaging effects it can have on creativity, innovation, and competition.\textsuperscript{35} Recently, the Director of Enforcement of the FSA indicated that “even where empirical analysis shows there has been a market failure, the FSA is not always convinced that regulatory intervention is the most efficient and cost effective form of correction.”\textsuperscript{36} This contrasts the situation in the US where the SEC received almost 20,000 complaints from customers in 2005.\textsuperscript{37} Rather than bring enforcement action, or implementing any regulatory intervention, the Director of Enforcement at the FSA further indicated that market failures “may also be addressed with competition policy or the FSA using its relationship with other market participants to change firms’ policies”, without breaking out the regulatory rulebook.\textsuperscript{38}

Focus within the FSA’s regulatory function is on the outcome rather than the prescription of detailed rules. The hope is that this will act as an incentive for firms in the UK to focus on compliance in return for a “regulatory dividend”- less regulatory intervention.\textsuperscript{39} The philosophy is that prevention is better than a cure in that it is more desirable to implement pro-active surveillance of likely “hot spots”, up-to-date transaction analysis systems, and industry cooperation to ensure a steady flow of information.

\begin{itemize}
\item \textsuperscript{32} Id.
\item \textsuperscript{33} Id.
\item \textsuperscript{34} Vernon Everitt, Speech, \textit{The FSA’s regulatory approach and raising financial capability through the workplace}
\item \textsuperscript{35} Margaret Cole, Speech, \textit{The UK FSA: Nobody Does it Better?}
\item \textsuperscript{36} Id.
\item \textsuperscript{38} Margaret Cole, Speech, \textit{The UK FSA: Nobody Does it Better?}
\item \textsuperscript{39} Id.
\end{itemize}
Unlike the US, the FSA does not actually have legislation which separately codifies rules in a comprehensive securities act. The securities laws in the UK are dispersed among the other laws, such as in corporation law and banking law.

The enforcement division of the FSA actually has no stand-alone priorities separate from the rest of the organization. Instead, the entire FSA is concentrated on two main priorities: (1) market abuse on the wholesale side; and (2) fair treatment of customers on the retail side. The FSA is able to prosecute insider dealing, market abuse as well as breaches of the “perimeter” (people conducting regulated activities without authorization) in criminal courts. The FSA may also bring cases in the civil courts to freeze assets and to restrain unauthorized behavior, among other things. Procedures for these actions allow the FSA to impose unlimited fines, alteration or withdrawal of a person or firms’ ability to conduct regulated activities, or even bar them from the industry altogether. However, in 2005/2006, excluding threshold conditions cases, 37% of the matters investigated by the FSA concluded with no disciplinary action and in a further 9% of cases were private warnings issued. Prosecution of white-collar crimes in the UK, under the FSA’s supervision, has been sparse at best.

3.4 Issues for Consideration in the Single Regulator Model of the UK

Initial consideration must first be given to the obvious youth of the regulatory structure in the UK. The FSA has had only a short time to make its presence felt and the idea of what regulation ought to be implemented on a massive scale. An end-to-end review of the system in 2004 concentrated on improving efficiency and the enforcement process of the FSA. The concerns related to the fairness of the process and have led to a focus on how the FSA conducts investigations and how decisions are reached in enforcement cases.

Three challenges have been identified as what the FSA must consider moving forward. The first is how should FSA oversight respond to increasingly international financial institutions? This is an issue for the regulatory community as a whole, but because of the international nature of London as a capital market center, it is particularly important for the FSA. The challenge is how to regulate the international financial institutions in a way that is either at best, burdensome,
and at worse, contradictory.\textsuperscript{45} Secondly, the FSA must consider how to become a more principles-based regulator than it already is. How can the FSA succeed in making use of the principles, rather than rely on rules? Decline in the number of rules, combined with the increased use or principles, leads to an issue of adequate prediction under the principles the regulated enjoy with precise rules.\textsuperscript{46} Finally, how will the FSA retain its focus as the single financial services regulator in the UK? This includes both “external understanding of what the FSA does and does not do, and why; and the internal managerial concentration on a limited number of objectives.”\textsuperscript{47}

‘The presence of the single regulator may foment and accelerate collusive relations between the regulated and the regulator, resulting in ‘regulatory capture’ for the FSA.”\textsuperscript{48} Furthermore, this model is affected by possible incompatibility among different supervisory objectives, and may also lead to problems of self-contradiction if authority leads to conflicting supervisory objectives.\textsuperscript{49} A single regulator model “strongly depends on its internal organization: if the numerous areas of competence and specialization are not well-structured and coordinated, the decision making process risks being slowed down.”\textsuperscript{50}

4. The Better Regulatory Framework: A Comparative Analysis

4.1. Three Considerations in an Effective Analysis

Comparison of the two approaches to securities regulation must involve an analysis of the three main components of regulation for the capital markets. First, due consideration must be given to one of the most effective means of deterrence in the securities industry, that of prosecution for violations of the rules and regulations imposed by the supervisory authorities. Secondly, a simple analysis of the costs associated with each system as well as the benefits borne from those costs. Finally, we will assess the overall effectiveness and efficiency of each system in relation to each other to correctly determine whether it would be reasonable and prudent for the US to consider a restructuring of its regulation system to more closely resemble that of the UK.

\textsuperscript{45} Callum McCarthy, Speech, \textit{The future regulation of financial services} (Smith Institute Breakfast Seminar, June 21, 2006) (copy of transcript from FSA website)
\textsuperscript{46} Id.
\textsuperscript{47} Id.
\textsuperscript{49} Id.
\textsuperscript{50} Id.
4.2. Safe and Sound Practice in the Markets: Prosecution of Violations

Among several criticisms of the UK’s “light touch” approach to regulation there are three that stand out: (1) there is a “conspicuous absence of criminal prosecution of securities law violations; (2) the FSA’s resources are widely stretched across its huge jurisdiction; and (3) the FSA’s strategic approach to enforcement sends out selective messages to the markets and allows some illicit activity to go unpunished.” Proponents of the US regulatory structure indicate, quite correctly, that the regulators, the investors, and even the regulated firms derive great benefit in the safety and security offered by detailed rules that define the scope of their legal exposure. However, dissenters point out that even this authoritative and enforceable rule-based standard will not fully prevent dishonest practice. The natural, and correct, response to this is that there is simply no conceivable manner in which all illicit activity can be prevented. This basic premise does not change in any regulatory structure.

Most adverse to the current US regulatory scheme is the principle-based approach of the FSA. The enforcement team at the FSA pails in comparison to that of the SEC in terms of the percentage of staff assigned to enforcement responsibilities. The FSA devotes just eight percent of the staff to enforcement, while the SEC devotes over half the staff to the enforcement division. This stark contrast exemplifies the inherent cultural differences between the mindset of the US and UK regulatory authorities.

Appetite for prosecution in the US has created a reputation for the US, good or bad, based on the knowledge that all those who engage in an alternative or borderline activity will at least be a subject of investigation by the SEC, CFTC, and the Department of Justice in cases where criminal prosecution is warranted, not forgetting the SROs and State securities regulators. For example, the total value of securities class-action lawsuits in the US has skyrocketed from just 150 million dollars in 1997 to 9.6 billion dollars in 2005.

On the other side of the pond, the FSA has accepted the knowledge that some illegal activity may go unpunished, but focus will be placed on higher-risk issues in the market. Current criminal caseload for the FSA and their Securities Fraud Office is comprised of approximately ten cases for trial per year, but there is essentially more at stake because the practice of plea bargaining and giving “states evidence” is not currently allowed in the UK as it is in the US. However, the FSA has indicated an acceptance that there are some instances that call for criminal

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51 Margaret Cole, Speech, The UK FSA: Nobody Does it Better?
52 Id.
53 Id.
54 Id.
prosecution and furthermore, acknowledges an increased load of them in the future to solidify the gains London has made on the world stage.

4.3 Associated Costs and the Realized Benefits

A choice between a specified, single regulator model, and a multi-regulator model necessarily hinges on practical considerations of the costs and benefits to the regulators, firms, and market participants. Possible overregulation costs the firms more in compliance not only in monetary terms, but, in the US, there “appears to be a worrisome trend of corporate leaders spending an inordinate amount of time on compliance minutiae rather than innovative strategies for growth. These leaders are fearful of penalties assessed on the firm, but more importantly, they are fearful of personal financial penalties from overzealous regulators.” US regulators consistently compete to be the “toughest cop on the street” while the UK system focuses on collaboration and solutions to problems.

Although deregulation, or simply less regulation in quantity, may help some countries gain short term benefits from an influx of business to the markets, the long-term prospects are less beneficial as they indicate injury to the stability and reliability of the global marketplace. A few recent examples identified by industry experts may shed light on the positives of deregulation for the US market:

“Two examples from recent US financial history serve to show the weakness of a multi-level, multifunctional regulatory system. Continental Illinois was one of the top ten banks in this country entering the 1980s expansion. With the slowdown in the Midwest economy during the rust belt era Continental attempted to grow by attracting wholesale deposits (hot money) nationally, in part, because the state of Illinois did not allow banks to branch outside their home county in search of retail deposits. When it became known that Continental was having some difficulties due to energy lending, these hot money deposits left the bank quickly and Continental was quickly in a liquidity squeeze. Had there been a single national bank regulation with respect to branching then Continental might have been able to draw deposits from a wider retail base and would have likely avoided a crisis. Eventually, Continental was absorbed into Bank of America.”

“On the multi-functional front, the experience of the 1990-1991 experience is useful. At that time, several regulators became concerned about the viability of high yield bonds. Acting on their own, thrift and bank regulators requested that financial institutions liquidate their holdings of high yield bonds and/or limit lending in such deals. If there were a single, national, regulator then it might

55 Charles E. Schumer & Michael R. Bloomberg, To Save New York, Learn From London
56 Id.
57 Id.
58 Martin Wolfson, Financial Crisis, M.E. Sharpe, 108-113 (1986)
have been more likely that a national regulator would have avoided the multiple demands for liquidation of high yield bonds and the subsequent shortage of market liquidity, the closure of some thrifts and the amplification of economic recession during the 1990-1991 period.\textsuperscript{59}

Advocates of the UK model advance the proposition that overregulation is too costly, inefficient, and leads to inevitable exploitation and abuses along regulatory seams.\textsuperscript{60} Furthermore, the costs of supervision charged to those regulated and/or to taxpayers decrease while there is less room for “regulatory arbitrage.”\textsuperscript{61} “Industry experts estimate that the gross financial regulatory costs to US companies are fifteen times higher than in Britain.”\textsuperscript{62} Firms in the UK benefit greatly by a principles-based approach because it enables them to decide, within reasonability, the most prudent course for the firm and the investors. US firms look at desired courses of business only to find hurdles placed one after another to ensure compliance with all specific rules and regulations. Here, increased cost comes with the benefit of increased certainty, but in the UK, the benefit comes with an almost hurdle-free path.

### 4.4 Effectiveness and Efficiency Considerations in the US and UK Models

The FSA indicates four “pillars” essential to delivering a more effective and efficient retail market:

1. Capable and confident consumers
2. Clear, simple and understandable information available for, and used by, consumers from the industry and the FSA
3. Soundly managed and well capitalized firms who treat their customers fairly
4. Proportionate, risk-based regulation founded on key principles, including a reliance on the senior management of firms to discharge their obligations.\textsuperscript{63}

The SEC conducts itself according to the mission of protecting investors, maintaining a fair, orderly and efficient market, and facilitating capital formation. The goals of each system are congruent, but the efficiency and effectiveness of each is not. Scholars advocating the regulatory system of the US point to the competitive nature of regulation in the US as providing the optimal

\textsuperscript{62} Charles E. Schumer & Michael R. Bloomberg, \textit{To Save New York, Learn From London}
\textsuperscript{63} Vernon Everitt, Speech, \textit{The FSA’s regulatory approach and raising financial capability through the workplace}
level of regulatory intrusion upon private business interests.\textsuperscript{64} Advocates of the US competitive model further contend that competing regulatory bodies will not only govern less, but also more efficiently.\textsuperscript{65}

However, the FSA’s “light touch” approach including a governing emphasis on the principles has been highly effective. Backed by bold and strategic enforcement action, this approach has been effective in creating a more collaborative and solutions-oriented regulatory system attracting more business to London’s capital markets.\textsuperscript{66} For example, by the end of September 2005, “companies had raised more capital on the main market of the London Stock Exchange (LSE) ($26.7 billion) than the New York Stock Exchange (NYSE) and NASDAQ combined ($26.4 billion). These figures do not include the $6.7 billion that was raised on the LSE’s Alternative Investment Market.”\textsuperscript{67} Moreover, “the LSE had attracted 59 international IPO deals in the first three quarters of 2005, worth $15.9 billion, whereas the NYSE and NASDAQ together had only attracted 17 deals worth $5.9 billion.”\textsuperscript{68}

Additionally, “there is a regulatory dividend that London enjoys under the auspices of the FSA which has bolstered London’s status to establish itself as the worlds leader in mobile capital.”\textsuperscript{69} Much of the advantage the UK system enjoys stems from the economies of scale associated with the FSA’s regulatory structure. These economies of scale produce fixed costs, logistical expenses, administrative personnel costs, and executive management compensation costs which are all considerably reduced in the UK universal regulator approach.\textsuperscript{70} There is also one single regulator accountable to the legislative body.

\begin{thebibliography}{9}
\bibitem{66} Margaret Cole, \textit{Speech, The UK FSA: Nobody Does it Better?}
\bibitem{67} Id.
\bibitem{68} Id.
\bibitem{69} Id.
\end{thebibliography}
5. Conclusion

While this begins discussion on the economic efficiencies each regulatory system has to offer, there is much more research and observation necessary in future years before any determinative assessment can be made about which system is “better.” Both the UK and the US supervisory authorities maintain similar goals and missions, but implement very different initiatives to achieve these goals. The US system offers competition among regulators, but engages in far greater enforcement. The UK regulates primarily through principles with a last resort of bringing enforcement actions, but there may be less certainty in these principles than can be achieved with detailed rules.

Furthermore, effectiveness in each system must be observed in greater detail in the future before alteration to the US system is made. However, “The creation of such a monopoly supervisory authority is extremely unlikely and as Alan Greenspan put it, ‘highly undesirable on both political and economic grounds.’”71 Fundamental legal change and a fundamental change in the public mindset of the US securities industry would be necessary to accomplish a change to a single regulator model and right now, this seems to be unnecessary and unacceptable to current regulators in the US. As both regulatory systems continue to achieve their missions, a drastic shift in the US system to look more like the UK does not offer enough advantages at this point. Slowly implemented, small steps of deregulation may be the best way to move towards the principles and ideas inherent in a universal regulatory system, but for now, the competitive nature of the US regulatory structure is here to stay.

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