

MEMORANDUM

February 20, 1985

TO : Chairman Shad

FROM: David Martin *DM*

The White Paper recently issued by the U.K. Government proposes a system of statutorily mandated self-regulation.

Under the proposal, it would be an offense to carry on investment business in the U.K. without "prior authorization" by the Secretary of State. To obtain authorization, an investment business would have to show that it is "fit and proper" and will be required to observe detailed rules for the conduct of business based on principles to be set out in legislation. The hitch is that under the proposed model the Secretary of State will delegate the power of authorization to one or more self-regulatory bodies. The system, thus, is essentially one of self-regulation within a statutory framework.

Self-regulatory organizations will adopt rules that implement the "fit and proper" test based on principles set out in the legislation. Those principles will include fair dealing, duties of disclosure and of skill, care and diligence, the protections of clients' assets, suitability of investment recommendations, compensations for investors and disclosure of terms of business to customers.

The report also calls for a rationalization and updating of disclosure requirements in offer documents. This should be of particular interest to Corp. Fin.'s concept release on international disclosure standards. I'll make sure that Corp. Fin. gets a copy of the report.

Finally, the report specifically singles out the City Panel on Take-overs and Mergers as a good example of self-regulation that should be continued. As you know, takeover regulation in Great Britain is essentially consensual. The report states, however, that if practitioners or investors believe that statutory backing would be helpful, the Government would be willing to provide for such in the proposed legislation.

The report is summarized at pages 41-43.