
Editorial

A New Framework for Licensed Dealers

New Regulations for obtaining a licence to deal in securities and Rules for the conduct of a dealer's business came into effect (with two exceptions) on June 1, 1983. These reforms are the first fruits of the Gower Report under existing legislation and are a marker for the future course of investor-creditor protection. They are tough and uncompromising, and many dealers will need to revise their internal systems to comply. The danger is that others may be driven off-shore.

In the Regulations, there is a marked change of emphasis in the inquiries made of corporate applicants, which was previously on shareholding or ownership. The new emphasis is on the identity and qualifications of the directors and managers, not merely of the applicant but also of parent companies and fellow subsidiaries. More information is also sought about the dealer's business both before and during the currency of the licence, including verified information about the handling of client money and investments. We applaud these changes, which can only strengthen confidence in the working of

the capital markets.

The Rules themselves may have been overdrawn. For non-professional clients, client money must be kept in a designated client account as part of an elaborate records system (r 3) and documents of title may not be retained unless their ownership is identifiable (r 4). Second, clients must be told of the insurance or other arrangements made to cover a failure to account. Third, written notice must be given, telling clients how the dealer will handle client money and investments. If an element of investment management is included this must be the subject of a formal contract specifying certain matters. Fourth, there is a requirement to disclose any material interest a dealer may have in a transaction and certain transactions where a conflict of interest is inherent are banned. Disclosure is only waived (under r 8) when a "Chinese Wall" of functional separation, eg between dealer and investment adviser, exists and in certain other circumstances. Compliance by "unified" banks and trading institutions with no separate investment management arm will be very difficult.

There is nothing about takeovers. The City Code is left to govern but its effectiveness will only be assured by its imminent extension to cover private companies with public involvement in the ten years prior to a bid.