How will investment banking change?

There can be no doubt that investment banking will change as a result of recent events. We believe that the days of the feast are, with regret over. However not all corporate activity on which the investment banking scene was predicated will end. We do not expect there to be a flurry of new issues for either equities or bonds in 2009. Instead a few transactions will take place which slowly rebuild some degree of confidence in the system.

There will be growth in 2009 and 2010 but activity levels will not return to historic levels until probably 2012 at the earliest. Without the pipeline of transactions which are the lifeblood of the investment banking sector, it will shrink dramatically with a few global players together with niche boutiques providing the support. Basically we expect that part of the industry to decline to perhaps only 25% of its size prior to the crisis.

2. The Global Regulator

Whilst there is no global regulator for the entire banking industry, banks of course each have a single Home Regulator that takes ultimate responsibility for the regulation of the institution. These Home Regulators need to work closely with Host Regulators to make sure that the regulatory system works effectively. These rules have been revised fairly recently and should be allowed to work.

Of course that is not the issue that is concerning the market. The suggestion is being made that we now require some form of global regulator to take some level of international oversight. Our view is that any such development is bound to cause more problems than it solves. At present there are two bodies which operate on a global basis and have impacted on the crisis.

The first is the Bank for International Settlements, which is essentially the committee of banking governors. It is not answerable to anyone and is able to make rules that impact on the global markets. If there is a view that regulation needs to be altered globally, then the Bank for International Settlements already provides the mechanism for this to be achieved.