Bank ring-fencing cannot work because we have no accoun...

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I was on Radio 5 Live last evening discussing the Vickers report on banking.

My argument was simple: ring fencing is not enough and for a very simple reason that does, however strike at the heart of this issue. I simply don't trust the directors of our banks not to loot the assets of ordinary people to fund their appetite for risk. The proposed 'ring fencing' of capital within the vanilla banking parts of banks proposed by Vickers would not stop this as far as I can see. And we know from Bob Diamond that he has a renewed appetite for risk to increase returns.

There are good reasons for my concern. First, although capital preservation based on the concept of fiduciary duty is fundamental to UK company law (as my friend Tim Bush reminded the House of Lords recently, and which point they took on board) this has been forgotten by UK regulators. It has also been forgotten y UK accountants and auditors and the concept, based as it is on stewardship principles, is alien to International Accounting Standards which account on an entity basis which does not recognise capital in this form and therefore has no rules for it.

This means:

1) this principle of management has largely been forgotten and will therefore be ignored;

2) There are no accounting rules to sustain this concept in use at present — making enforcement nigh on impossible;

3) We have no accounting principles for such a ring-fence in any case — again making enforcement nigh on impossible;

4) It would be incredibly easy for management to circumvent any ring-fence precisely because all intra-group transactions are hidden from view in current reporting standards based as they are on consolidation — to which ring-fencing as heretical.

Of course, we could develop accounting concepts for ring-fencing, which are in some ways not far removed from the logics inherent in country-by-country reporting. But will we do that?

If not then this whole logic fails — precisely because of accountability — which is the last thing to which bank directors subscribe.

And for that reason the only answer is separate banks — because we can account for them and hold them accountable.