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Seminar

Risk Taking, the Limits of Law and Regulatory Failure – The Case of Northern Rock

Professor Roman Tomasic

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Monday, 8 September 2008, 1:00 – 2:00 pm

Room TS303, 3/F T.T. Tsui Building, University of Hong Kong

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The rescue of Northern Rock plc by the Bank of England in September 2007 has been a significant event in the history of British banking. Following the first run on a British bank in over 140 years, the Bank of England has stepped in to lend £28 billion in public funds to the failed bank and to replace its board of directors with its chosen controllers. Although the bank was not insolvent, the Northern Rock saga is not unique as similar rescues have occurred before and may yet continue to occur. The aim of this most recent rescue was to prop up the financial system as a result of the international effects of the US sub-prime mortgage crisis which caused an international liquidity crisis.

Poor management of risk was a major cause of the Bank's collapse. Inadequate corporate governance and defective legal regulation were additional causes. Self-regulation effectively meant no or very little regulation of bodies like Northern Rock. Despite the dominance of economic debates regarding minimal government interference in "self regulating" markets, socio-legal ideas about more effective risk management (such as through combining external legal regulation with internal organisational monitoring and the use of soft law) had little effect. It has frequently been said during the current crisis, that it was as if both the directors and the regulators were all asleep at the wheel. Why was this so? What distracted them from their core risk management functions? This paper will explore some of the broader legal issues to emerge from the collapse of Northern Rock plc.

Professor Roman Tomasic holds the chair in company law at Durham University and has doctorates from the University of New South Wales (PhD) and the University of Wisconsin-Madison (SJD); before moving to Durham, he previously worked in Australia at Victoria University and the University of Canberra. He was a founding editor of the Australian Journal of Corporate Law and has written widely about corporate law reform and theory, comparative insolvency law and comparative corporate governance. His recent work has looked at corporate governance in leading Chinese listed companies. He currently interests focus on the limits of corporate law, corporate sanctions and corporate regulation and the wider implications of this failure.

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ALL ARE WELCOME!