

# FINANCIAL TIMES

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## White collared

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The true extent and costs of white collar crime are unknowable. That it is a serious problem, however, is indisputable as the flimsy facades of Ponzi schemes and market manipulations crumble in the economic downturn. Regulators around the world are stepping up the fight against market abuse, but they are constrained by limited resources. If they are to succeed they must make their investigations more effective. That is why the US initiative introduced last year, to reward people for reporting breaches in securities laws to enforcement agencies, should be studied by other jurisdictions.

Since whistleblowers became eligible for 10-30 per cent of any enforcement recovery amounting to \$1m or more, US authorities have been swamped with tip-offs. This year, the Securities and Exchange Commission expects to announce the first whistleblower award, and it may well be substantial. Insiders suggest that SEC actions will be better targeted and more effective as a result of higher-quality information being brought forward.

The US is particularly effective at prosecuting market abuse, but even there it is notoriously difficult to build up a case from the outside. Though many jurisdictions attempt to protect those who report misconduct, studies in the US and Australia have shown that more than 90 per cent still face reprisals. It generally does not pay to be a whistleblower, so strong incentives are needed to compensate for the loss of livelihood.

Critics suggest that paying for information poses ethical problems. But safeguards can be built in. Rewards must be linked to successful enforcement action to deter those peddling spurious information. Trouble-makers can also be put off by a high recovery hurdle, as in the US. This will filter out unnecessary tips that could swamp regulatory resources.

The US has a long tradition of paying for inside information on misconduct. Tips made under the False Claims Act, introduced in the civil war to catch unscrupulous suppliers to the government, accounted for much of the \$2.8bn recovered in 2011. The whistleblowers themselves earned \$532m.

Brussels would like to see member states introduce something like the US system. Britain, which has been cracking down on market abuse, could usefully add whistleblower bounties to its regulatory armoury. The US experience suggests there may be benefits for constrained regulators and the integrity of Europe's financial markets.

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