‘Twin Peaks’: Is UK's System of Financial Regulation a Model for Cyprus?

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In the aftermath of the financial crisis, there emerged a consensus of opinion both on the global stage and in the domestic arena that failures in regulation played a significant role in the crisis. Thus, following the financial crisis countries have adopted different approaches or structures to financial regulation. One such approach is the ‘Twin Peaks’ structurewhich regulates the market in accordance with two broad regulatory functions: first, market conduct integrity and consumer protection; second, prudential regulation and financial system stability. Each objective is pursued by a separate regulator, thus lending the name ‘Twin Peaks’to the structure. Past experience reveals that some countries have frequently changed structures, particularly in response to financial collapse. Significantly, since it was pioneered in Australia, no country has yet changed from a ‘Twin Peaks’structure to another structure.

Jurisdictions such as the United Kingdom, the Netherlands, South Africa and Australia have substantially reformed their banking and financial sector regulators by adopting a‘Twin Peaks’regulatory structure. In the UK, in particular, the view of the then Labour government was that that failure was caused by weaknesses in the Tripartite system of regulation and therefore adopted the‘Twin Peaks’ approach.Such reforms aim to ensure the stability of these jurisdictions' financial systems.

The aim of this paper is to examine whether such an approach could prove beneficial for Cyprus.This paper identifies challenges associated with Cyprus current financial regulatory system and considers the insights that the experience of the UK and other‘Twin Peaks’jurisdictions might offer.Analogous to the UK reform, the banking regulation could be divided into two categories: first, market conduct integrity and consumer protection (like the FCA); second, prudential regulation and financial system stability (like the PRA).