

The Editor
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Sir

We all recognise the need for restraint and discipline on bankers' pay, but there are three reasons investors should worry about the government's proposals to legislate ("FSA given extra clout to punish City crime", FT, November 16).

First, we are increasingly concerned that, by going out on a limb as they are increasingly inclined to do, the UK authorities will make the banks less competitive in the international arena. Second, contracts are legally binding documents. The reported threat by the authorities to tear them up shows scant respect for the rule of law, which is an essential underpinning to any financial centre. Third, micromanagement of this sort may put Financial Services Authority officials in the position of being shadow directors but it is very doubtful whether they would accept the consequent liability.

We will have to hope that when the details are announced, they take account of the need to foster a climate in which investors will willingly put up the additional money needed to recapitalise the banks.

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