EMERGING MARKETS
BÜRGENSTOCK, SEPTEMBER 6, 2001
JOINTLY ORGANIZED BY SFOA-AFM-UNCTAD

PANEL #1
REGULATORY SET-UP

Panel Moderator: Mr. Gergely Horvath, KELER

Panel Members:
Mr. Robert K. Wilmouth, National Futures Association
Mr. Joao Lauro Pires Vieira Do Amaral, BM&F
Mr. Sergei Mayorov, MICEX
Mr. Zsolt Horvath, Budapest Stock Exchange
Mr. R. Sundararaman, National Stock Exchange of India
Mr. Roderick Gravelet-Blondin, JSE Securities, Agricultural Division
Ms. Leonela Santana-Boado, UNCTAD

Major issues discussed by the Panel:

I. Should regulators establish a well-structured, detailed regulatory set-up or just provide for its frameworks?
II. Is it recommended to pick up best practices from other countries?
III. What should be the accepted regulatory level?
IV. Who to protect? The market, the investors or the exchanges?

1. Recent tendencies of the industry (provided by Mr. Amaral)

- globalization,
- consolidation,
- standardization,
- a trend toward market-driven institutions instead of member-driven institutions.

2. Basic regulatory needs of the industry:

- legal certainty (Mr. Amaral),
- market integrity (Mr. Amaral),
- transparency (Mr. Amaral),
- balance between integrity and growth (Mr. Gravelet-Blondin)

- Developing markets need liquidity at the first place. Market integrity is achieved through the early development of market regulation and policies. If self-regulation is implemented it has to have government oversight (Mr. Robert Wilmouth)

- Mr. Mayorov explained that 10 years the market in Russia started practically without any kind of regulation. After the crisis of 1998 regulators woke up and rapidly started phrasing detailed regulations. To date, in Russia there are 3 regulators with somewhat contradictory requirements. He also stressed that regulation should be business oriented and regulators definitely should consider best practices such as the single regulator model of the United Kingdom.

- Mr. Robert Wilmouth added that swaps market had been unregulated for many years in the United States. Thus, the market developed before regulation and it operated as a self-regulated market. He also pointed out that the less regulation of the OTC markets had a good impact on the regulation of overall market regulation.

- Mr. Zsolt Horvath pointed out that emerging markets can bring good existing models on low level regulation, and agreed that the higher level regulation should just be a framework. He highlighted the effect of taxation on exchanges e.g. an unfavorable taxation environment can bring a market down to zero.

- The Panel agreed that the industry itself should develop the basic rules, but they should rather be a code of principles instead of details. In order to maintain market integrity regulators should not go into details.

3. ***Four major responsibilities of regulators suggested by the Panel:***

- registration,
- arbitration,
- compliance,
- education.

The main task of the regulators are to protect the *end-investors.*

4. Commodity vs. Securities markets: are they any different from regulatory viewpoint?

Characteristics of commodity markets: the presence of more producers with substantial physical delivery, the primary goal is to hedge price risk or to transfer the risk.= risk allocation

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Characteristics of securities markets: the presence of more financial investors with a possibility of speculation, the primary goal is to create capital, to make profit = credit allocation..

Tendency in the US and in the UK: all two markets under one regulator.

5. The length and the cost of regulation (external/internal)

We should take the regulation as a special tool to minimize the risk. But like in any other cases the extremes (such as slow procedures, too high requirements or the lack of fair rules or power to foresee the rules) can kill the market itself.