

Barry Whiteside: The changing nature of financial markets surveillance

Opening address by Mr Barry Whiteside, Governor of the Reserve Bank of Fiji, at the APEC Financial Regulators Training Initiative (FTRI) Market Supervision Seminar, Nadi, 5 December 2011.

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Salutations

Distinguished Guests,

Participants,

Ladies and Gentlemen.

BULA VINAKA AND A WARM WELCOME TO YOU ALL.

I would like to especially welcome those who have travelled to Fiji from abroad! I understand we have some participants from as far away as Tanzania, India, China, northern and southern Asia, as well as our friends from the Pacific Islands.

It is with great pleasure that I welcome you all to Nadi for the APEC Financial Regulators Market Supervision Seminar. We are indeed honoured to help host this important week-long regional training initiative for securities regulators. It is also extremely pleasing to see such a great mix of participants from right across our Asia-Pacific region.

I thank the organizers, the ADB and the APEC Financial Regulators Training Initiative Secretariat, for inviting me to give the opening address to what ought to be a stimulating seminar. The topics for your deliberation are impressive and will no doubt bring unique insights into the changing nature of financial markets surveillance. Do try not to let the surroundings distract you from this purpose!

Ladies and gentlemen, the timing of this seminar is pertinent, given the economic and financial environment with which we are all confronted at the moment. Set against the backdrop of the recent global financial crisis, increased insider trading, and the structural problems facing the crisis-hit EU economies, the importance of constructing and harmonising preventative market surveillance rules and disseminating this in regional training is critical for us all.

Addressing the pressing need for market surveillance training in emerging economies

Please allow me, this morning, to briefly share with you why market supervision initiatives such as this are of paramount importance to developing nations, like Fiji.

Over the years, the Asia-Pacific region has witnessed vast changes in the nature of securities trading. Cross-border trading and the volume of trade have increased exponentially and so has the complexity of products offered.

History, however, has proven that financial innovation in an ineffectively regulated environment provides an avenue for market manipulation, and precedes excessive risk-taking and market failures.

It has therefore become critically important that macro-prudential surveillance is continuously updated in line with the evolving nature of the securities market, in order to safeguard its integrity and efficiency.

Ladies and gentlemen, you will all agree that we are living in a time where the world is becoming rapidly smaller due to technological change. The speed at which information and

money can move across borders continues to be enhanced, even in our smaller economies here in the Pacific.

Therefore, collaboration between the securities regulators of our countries, sharing of information and knowledge and just learning from one another, has to form a vital part of our market surveillance.

Intervention and institutional oversight by the designated securities regulators in our respective countries is a necessity for the sustainability and efficient operation of our securities markets.

In Fiji, this responsibility falls on the Reserve Bank of Fiji. We have the mandate of maintaining a stable, sound and internationally reputable financial system, which from 2009 included the securities market.

While our financial institutions and banking supervision framework and expertise have progressed alongside global banking sector developments, the expertise required to deliver effective supervision in our securities market is not as mature. This, in the main, has to do with the developmental pace and conditions of our securities market. As a result, market surveillance has been reactive rather than preventive.

I believe that I speak not only for Fiji, but for many of our smaller fellow nations as well, in saying that the technical topics which will be addressed over the next five days will further develop our supervisory expertise and help harmonise our surveillance standards with the more developed economies.

Managing and containing risks is key to our market surveillance. The increasing complexity of investment products and the potential threat of people “beating the system”, and its ramifications on market stability, provide ample rationale for financial institutions and supervisory bodies to accord greater attention to risk-management practices.

For supervisors, an appropriate risk-based supervision framework is essential to enable us to keep up with the dramatic changes in the risk profile structure of the product market and risks assessment of financial institutions.

Focus areas of the seminar

Ladies and gentlemen, the next few days will provide exciting learning and networking opportunities for all participants and we are fortunate that we have with us presenters and speakers who are highly qualified and well experienced in their respective organisations.

You will be identifying and discussing the latest developments in the regulation of market intermediaries within the Asia-Pacific region. A critical part of any seminar is the sharing of your own experiences, views and ideas. I urge you to discuss the issues widely and utilise the tremendous experience of your resource people who have taken time out to be here.

It is important that we keep abreast of changes that are always occurring in our markets. For developing economies, like most of ours, the changes will bring their own sets of challenges and, as securities regulators, we need to ensure that we address these challenges while taking advantage of the benefits they offer.

Technology is playing a vital role in every aspect of financial activity globally and has transformed the securities industry. Even in our region we are witnessing secondary market trading moving to electronic platforms.

Fiji witnessed this with our very own South Pacific Stock Exchange just last year. Broker-dealers are now using powerful computer systems and sophisticated applications to electronically send and receive market data, research reports and company information.

For most markets and market professionals, the internet has enhanced communications networks. With all these benefits for the market players, we market supervisors are left with a

definite need to upgrade our market surveillance techniques. I am pleased to note that the use of technology to aid in the supervision of market intermediaries will be a topic covered in this seminar.

Ladies and gentlemen, the globalisation of securities markets has had a significant impact on the nature and level of trading, as well as the provision of related services.

As the desire and capacity for cross-border trading and cross-border services have increased, so has the need to ensure that involved parties are acting properly in performing their duties. Proper surveillance of cross-border market professionals and regulated firms is critical to the maintenance of the integrity of securities markets. Participants should also look forward to learning about, and sharing, various supervisory tools for cross-border supervision in the next few days.

In line with the developments in securities markets, the nature of the products offered by the market, as well as recent failures of related industries, it is important for regulators to be mindful of real-time risks as well as perceived risks associated with the industry, its products and its players. I am pleased that the organizers have included risk-based supervision in the seminar program. We need to be always forward-scanning for likely risks in our own markets to enable us to effectively minimize or eliminate their negative effects.

In terms of market conduct, when investors have confidence in the integrity of our markets, the economic benefits can be significant and are generally well recognised. Conversely, the economic damage caused by market misconduct, such as insider trading and market manipulation, can also be significant. While it is commonly accepted that such adverse activity can result in a private loss for investors, the public cost, which is the harm to the integrity of the market and to its perception, can lead to changes in broader market behavior and pricing. These can have an adverse flow on effect on the economy at large. The detection of such misconduct in the stock market will also be addressed in this seminar.

Closing

Ladies and gentlemen you have an exciting week ahead.

In closing, I urge all the participants to make the best use of this learning and networking opportunity to be able to exploit new supervision concepts that can be tailor-made to your very own jurisdiction. Please share your own experiences and open yourselves to the views and experiences of your colleagues around you. As regulators, we definitely are a stronger force if we work together.

I wish to particularly thank the ADB and APEC for the support that they provide towards such training and up-skilling of our people and look forward to your on-going collaboration. Thank you also to the resource persons for providing the time to be here.

Finally, I invite you all, and in particular our overseas visitors, to take the opportunity to see a bit of our beautiful country whilst you are here. Do enjoy our local hospitality! There is definitely a Fiji way of doing things, which you can find out about from my colleagues who are joining you for the Seminar!

I now have much pleasure in officially opening the ADB/APEC FRTI Market Supervision Regional Seminar and wish you all a fruitful and successful programme.

VINAKA VAKALEVU.