

“MARKETS CANNOT BE REGULATED TO ABSOLUTE SAFETY”

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Phillip Thorpe,
Chairman and CEO, QFCRA

Financial regulators and regulations have gained a new prominence in the wake of the financial crisis that shook global markets, beginning with the sub-prime crisis in late 2007. This assumed new proportions with the collapse of Lehman Brothers on September 15, 2008 and since then debates have raged in financial circles on the extent of ‘teeth’ that regulators should have to avert crises of this proportions which has left a trail across all financial markets.

Qatar has been alive to the fact that with multiple regulatory regimes within the country – that of Qatar Central Bank (QCB, that regulates all the retail banks in the country and their operations across business segments), Qatar Financial Markets Authority (QFMA, the regulator of the Qatar Exchange) and Qatar Financial Centre (QFC, which under the ambit of Qatar Financial Centre Regulatory Authority, regulates the wholesale operations of international players), eventually there would need to be some uniformity in regulations and a level playing field. And this gave rise to the concept of the Single Financial Regulator, based much on the model of the UK’s Financial Services Authority, that had been in the news

since 2007. And 2010 had been put as the timeframe for the regulator to take functional grip.

In an exclusive interview to *Qatar Today*, Phillip Thorpe, Chairman and CEO, Qatar Financial Centre Regulatory Authority (QFCRA), reaffirms the Government’s commitment to the idea of single regulators, albeit delayed by the economic crisis, detailing the functional aspects and sharing his thoughts on the extent of ‘teeth’ that the new regulator is likely to have.

“There are fairly well-established international principles regarding the ‘teeth’ that should be available to regulatory agencies, and I am sure the Government will aim to properly equip Qatar’s new regulator with the powers it needs to effectively regulate the financial markets and their participants.

“Though regulatory unification has been trailed for some time now, events such as the economic crisis have had their impact on timing. What is clear, however, is that this is something to which the Government is committed and will take forward.”

Prudence and crisis

One school of thought stresses that reg-

ulatory prudence could prevent recurrence of financial crisis like the one we witnessed.

Commenting on the extent of powers that regulators should have, Thorpe says, “Someone jokingly observed that the safest financial market is one that is closed. We should never forget that the markets are all about risk. Pricing risk, transferring risk, insuring risks – and if we manage those risks badly, there will be trouble. My point is that you cannot regulate a market to a point of absolute safety – if you did, you would, in effect have closed it down. What a good regulator is always trying to do is ensure that the risks are appropriate – what might be satisfactory for a sophisticated investor, may be very unwise for a person with a limited income saving for their children’s schooling.

“Regulators are also very keen on the value of transparency – we see ‘disclosure’ (of risks, of how they might arise, of the consequences of those risks crystallising) as an important safety measure in allowing markets to trade risks. But to answer your question more directly, we also see it as vital that any regulator has the ‘teeth’ to be a good watchdog. In essence, if someone decides that they are going to do something that is against the interests

of the market or their clients, they should know the risk of being detected and punished by the regulator. We want to ensure that risk is real and acts a serious deterrent to those who might otherwise abuse the markets.

Functional aspects in post-crisis era

The functional objectives of a single regulator are to bring under one roof the regulatory oversight of all elements of Qatar's financial services industry.

"Most obviously this will include the regulatory functions of the Central Bank, oversight of the Stock Exchange and the regulation of businesses by the QFC Regulatory Authority. It is also expected that it will draw in some financial services currently not fully regulated under existing legislation, including insurance broking and investment advisory services.

"The critical point here is that the single regulator should create a 'level playing field'; ensuring all businesses conducting similar activities are regulated to the same high standards, thus ensuring that customers of those businesses can expect the same levels of service and care from the company they are dealing with, and the same expert degree of supervision by the new regulator."

Thorpe is clear that the basic intentions behind the new regulator will remain largely unchanged in the post-crisis era.

He says, "The desire to set high standards, the aim of creating a level playing field for all participants, the intention of ensuring customers are treated fairly, the effort to bring together and enhance the regulatory expertise available to the State of Qatar – I cannot see why these goals should have changed because of the financial crisis. If anything, the sense behind these objectives has been made

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plain by that crisis. Nor do I think there is any change to the desire to have a strong regulatory agency as a key ingredient in creating a robust platform for growth of Qatar's financial markets."

Transparency with integrity

Matching transparency with integrity is one big challenge for any regulatory body and "while the scope of work for the new regulator will of course initially be defined by the Government, in the process of bringing together existing agencies and bodies: principally the QCB, QFMA, QFC Regulatory Authority and key Government departments, it is very plain that the Government's intentions are to improve the transparency and integrity of the markets, and to address the need for strong corporate governance in the marketplace. These are common foundations for any jurisdiction, and the Government's commitment to these objectives is well known.

With international models of single regulatory regimes are also doing new groundwork for themselves, the question obviously arises: How much of their experience will rub off on the Qatari body?

"In designing a new regulator for Qatar, I am sure that international best practice will be a key consideration. One lesson from the financial crisis has been the need for regulators to communicate successfully, and another is that having a multitude of regulators only makes that communication task more difficult. The move to a single integrated regulator in Qatar should ensure we can deal with that communication issue head on, and successfully. What we do need to think about is the current 'hot topic' of systemic risk. Again, having a single regulator should help in the task of identifying risks and we will need to focus on ensuring we make all who need to assess those risks, aware of them."

Lehman collapse and pinning of responsibilities

Audit firms like E&Y are in for criticism on their responsibility over the collapse of Lehman Brothers. Disagreeing with this, Thorpe says, "Audit firms are not alone in facing criticism over recent financial failures – Boards of Directors have been crit-

QFC IN THE POST UNIFICATION PHASE

On QFC's functional transition to the single regulatory regime, Thorpe says, "We envisage a smooth transition to the new regulator, and there should be no adverse impact on QFC businesses, be that in terms of the standard of regulation that they currently enjoy or the processes to which they are currently subject. I note that other regulatory mergers that have occurred around the world have usually entailed a period of transition – often lasting two or three years – as the new regulator is established, as it develops its rules and regulations, and as the regulated firms are given time to make the transition from 'old' rulebooks to 'new' rulebooks. I would imagine we will see the same sort of transition process in Qatar."

icised, executive management has been criticised, regulators too have been accused of failing to spot problems as they arose, and even Governments have been criticised for either intervening when they shouldn't have, or not intervening at all!

"While improvements have already been made, and more will follow, one should not assume that we will never see the problems that have surfaced in this financial crisis again: of course we will learn from what has happened, and we must make improvements to try and limit the opportunity for such problems returning. Creating a single regulator will help in that effort – by pooling expertise, by improving domestic communication, by allowing for the better collection and analysis of data – which should all go towards reducing the potential for problems in the future. Further, the intentions of the Government to raise the standards of corporate governance, and as I mentioned earlier, to stress the importance of transparency and integrity – coupled with providing customers with the knowledge to better assess financial matters for themselves, will all help in this cause." ■