

EUROMONEY

Regulation: Asia's regulators push ahead with reform

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Singapore encourages hedge fund start-ups; Billarook sees regional competition intensifying

Regulators in Asia are moving ahead independently of one another on reform of a variety of financial markets practices, without waiting for the results of parallel discussions in the west, according to sources investigating the trend. Although in the past Asian regulatory regimes have often taken guidance from the west, the retooling of those Asian systems that took place after the Asian crisis, Asia's subsequent performance in the latest global crisis and a growing sense of regional competition have all contributed to the present trend.

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Billarook



"We are seeing how Asian regulators are no longer effectively price takers from a global perspective," says James Mudie, managing director at Billarook, a firm engaged with senior executives at financial institutions in Asia on asset-related and regulatory issues. "Instead, Asia's regulators are moving pre-emptively on a range of reforms, as for example in Hong Kong and Singapore, where we have seen new frameworks for hedge funds implemented."

Confidence

That push for reform stems from the confidence Asia's regulators now have as they survey the carnage in western markets, and perhaps conclude that work done in a previous crisis has left Asia's markets in relatively good shape. As Jamie Spence, Mudie's partner at Billarook, says: "A number of Asia's regulators feel they have done a good job since the Asian crisis and are now in a position to go forward on reform, without waiting for global accords."

While the Obama administration continues to debate what form any changes to the existing US regulation on hedge funds might take, Asia's liquidity-hungry hubs are pressing ahead with rulings aimed at encouraging new funds to start up while attempting to bring the industry more under supervision. In Singapore, as part of a continuing review of hedge fund regulation launched in April, the Monetary Authority of Singapore announced that licences would not be required for smaller funds. In March, Bloomberg news reported that the MAS was further seeking to both encourage and control hedge funds by enticing them to set up a Greenwich-style hub for the industry in an area of the city called Nepal Hill.

Competition

Singapore is keen to encourage the hedge fund industry because it is more reliant than any of its regional rival hubs on the financial services industry as a source of economic growth. With no regional body overseeing continuity of regulation across Asia, the way is clear for the region's leading financial services centres to compete for investor attention on both the rigour of their regulatory frameworks and the implementation thereof. Billarook's Mudie says: "We may see inter-regulator competition for credibility in Asia, as investors scrutinize the extent to which the region's various supervisory agencies implement the new proposals. The industry as a whole is perhaps moving towards greater investor protection, so for anyone trying to raise capital now, to be able to point to the robustness of the regulatory regime in which you are operating is a strong selling point."

Mudie and Spence have been touring Asia speaking with the region's regulators, and conclude that the move by Singapore was merely the first in a series of expected reforms by those bodies as each seeks to encourage market development and provide further investor protection.

Meanwhile in Australia the Australian Prudential Regulatory Authority, an industry-created body that supervises financial services, surprised the market with a letter on August 26 that sets out rules under which deposit-taking institutions must provide "written self-assessments of each securitization in which they participate". The letter, which Apra has claimed merely clarifies existing rules but which market participants feel substantially changes them, criticizes the practice of some issuers of claiming to have transferred the risk in a securitization while retaining much of that risk on their books. The practice came to light in 2008 as securitizations began to turn sour and supposedly safe issuers found they had insufficient capital against losses on retained subordinated tranches of those notes.

Independence

The letter sets out in precise terms examples of claims to have transferred credit risk that it will not accept as valid. While the details of the move are of particular concern to RMBS market participants in Australia, the broader implications of the move are another example of a regulatory body in the Asia-Pacific region acting swiftly to reform market practice post-crisis. This is no coordinated move on the part of Asia's regulators – indeed the likelihood is that regulatory regimes in the region will continue to diverge without an overarching regional framework – but is rather a continuation of a global theme post-crisis. Asia's markets are stronger than ever, and their supervisors feel freer than ever to move ahead of deliberations outside the region.

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