

**Speech by Dr. Tariq Hassan, Chairman, Securities and
Exchange Commission of Pakistan
at the South Asian Federation of Accountants Seminar
on “Regional Cooperation for Economic Development”**

LAHORE – 18 January, 2004

Honourable delegates:

Distinguished guests:

Ladies and Gentlemen:

Assalamu Alaikum!

It gives me immense pleasure to be here today at the South Asian Federation of Accountants Seminar on “Regional Cooperation for Economic Development”.

SAFA has been rendering valuable services towards international recognition of the qualifications offered by the accountancy bodies of the South Asian region.

The theme of this technical session – “Regional Cooperation for Development of Capital Market” and “Cost Rationalization for meeting WTO Challenges” – is an issue of great concern to capital markets worldwide, and particularly to the developing economies in the South Asian region. While summing up this session, I would like to share my thoughts on the importance of regional cooperation and integration for the capital market and the accountancy profession.

Benefits of Globalization and Regional Integration

The forces of globalization, technology, changing investor demographics and new forms of competition have dramatically transformed capital markets worldwide. Presently, one of the main problems facing Asia is how it can secure the benefits of globalization.

First and foremost, attention must be paid to the trade-off between the risks and opportunities offered by globalization, which would clearly result in deepening mutual cooperation between developing countries and focus them on economic partnerships. The new forms of competition that have emerged through globalization call for regional harmonization at the macroeconomic level.

Global economic integration facilitates the importation of capital and intermediate goods that may not be available in a country’s home market at comparable cost. Similarly global markets improve the efficient allocation of resources. In addition, countries gain better access to financing, and the suppliers of capital – institutional investors and/or individual savers – receive better returns on their investments. Worldwide integration also allows for the rapid transfer of ideas and technology, which are critical ingredients of today’s knowledge-based economies.

Hence, regional integration would provide significant advantages in the form of:

1. lower prices for financial services;
2. a more efficient, liquid and broader securities markets;
3. innovative financial products and services;
4. industrial transformation of markets, cheaper corporate financing;
5. more efficient allocation of capital;
6. higher returns;
7. enhanced risk return frontiers; and
8. improved macro-economic performance.

International Trend towards Integration of Stock Exchanges

On the international front, the geographical location of stock exchanges is fast losing relevance. The ensuing trend is towards enhanced regional and global integration of capital markets. In the new market place, as a minimum, common trading platforms are becoming a regional necessity where multiple markets can share the use of the same technological infrastructure/base. This would lead to harmonized listing requirements, standardized trading and settlement procedures, and rationalized common qualifications for membership.

The outcome of the increasingly integrated markets is cross-border listings and cross-border flows. While traditionally companies wishing to list their securities on a stock exchange opted for the stock exchange of their country, certain factors - particularly technological advancements – have allowed companies to contemplate secondary and multiple listings in other countries.

Challenges of Globalization and Financial Sector Liberalization

It must be borne in mind that increased international capital flow leads to regulatory problems which are not solely market-based, such as, foreign exchange control, taxation treatment of foreign holdings and governmental attitudes towards foreign investment generally. As a result, the establishment of regional capital markets requires a plethora of reforms, primarily to remove restrictions on capital movement and on dividends and profits together with the harmonization of general taxation, regulatory and legal requirements.

Another major challenge posed by financial sector liberalization is that foreign financial institutions may end up dominating the domestic market. While this may be seen as encouraging competition for domestic institutions to become efficient, foreign firms, particularly those from developed countries, are generally believed to be more efficient and well-established.

Furthermore, while liberalization is most likely to stimulate capital flows, it can also aggravate the problems of financial institutions in a period of confidence loss, as capital flowing in can just as easily flow out.

Standards for the Accountancy Profession

The expanding globalization of business and investments is also driving increasing interest, as well as pressure, to enhance the quality of financial reporting throughout the world so that effective evaluations between companies can be made. The WTO regime also plays a key role in highlighting these challenges as the agreements seek to expand trade in goods as well as services under conditions of transparency and progressive liberalization.

Accountancy is a profession that plays a significant role in all societies. It is critically important for the conduct and good governance of any business within a transparent framework.

International diversity in national accounting standards has the potential to diminish the international flow of investment capital and thereby hinder economic development and the efficient international allocation of resources. Given the growth of international business activity, and especially international investment, comparability of accounting standards has a high priority.

One set of high-quality accounting standards is preferred in preparing the financial results of an enterprise, as well as promoting fair and full disclosure, and consistent and comparable information for all capital market participants. A common set of standards is needed because enterprises increasingly are comprised of multinational operations and activities requiring capital funding within and outside these national financial markets. As a result, more cross-border issues of financial instruments will become available in primary and secondary capital markets.

As the world moves towards global market economies, professional accountants need a broad global outlook to understand the context in which businesses and other organizations operate.

As with all other sectors, the accountancy profession in Pakistan will also have to gear up to these challenges by improving their work quality, ethical standards and general practice of their profession to world-wide norms in all dimensions in order to obtain international recognition and mobility.

Reforms Introduced by the SEC

Before I conclude, I would like to briefly highlight the recent reforms in Pakistan that have immensely contributed towards a well-performing capital market. An overall policy of deregulation has been adopted in the financial sector, which has led to rationalized procedures and decreased government intervention. Liberal policy frameworks for privatization and private sector development have been formulated, which are expected to broaden and deepen the capital market.

Protection of investors' interest is the primary focus of the SEC and all reforms introduced over the past years have been targeted at preventing the market from systemic risk and promote business enterprises, thus mobilizing capital for

investment. As a result, price discovery, trade settlement and investor dispute resolution have become visibly efficient, fair and transparent.

The cross-border flows of capital are accompanied with a host of regulatory issues. One such aspect – the regulation of cross-border financial intermediaries – is being looked into by the International Organization of Securities Commissions (IOSCO) through its Working Group of Emerging Markets Committee, which is headed by the SEC, Pakistan.

In order to make Pakistani companies more attractive for investment, a Code of Corporate Governance has been introduced. The Code is based on internationally recognized principles and emphasizes openness, transparency and accountability in the affairs of listed companies. This has been accompanied with enhanced enforcement of International Accounting Standards and improved audit services. We have so far adopted 38 out of 41 International Accounting Standards.

The SEC is continuously striving to raise standards of regulation and protect market integrity by ensuring a fair, efficient, transparent and vibrant capital market for all stakeholders.

While it is not possible to have the same standards in regulations in all economies in South Asia, much less worldwide, it is essential to have some sort of equivalence that allows investors to gauge the prospects of investing in a particular country. At a minimum, greater coordination and exchange of information between regulators of securities market regulators – both front line as well as apex – are cardinal factors in achieving consistencies in regulatory frameworks.

In this regard, the SEC recently signed a Memorandum of Understanding with the Securities and Exchange Commission of Sri Lanka, which sets forth a statement of intent of the two regulators to establish a framework for mutual assistance and to facilitate the exchange of information between them in order to enforce/ensure compliance with their respective securities and futures laws and regulatory requirements.

Furthermore, the three stock exchanges have also jointly signed Memorandums of Understanding with the Colombo and Chittagong stock exchanges to establish a system for mutual assistance and information sharing.

To conclude, I would therefore like to reiterate that a well-functioning, standards-based financial system should be viewed as a lubricant of development and as a positive signal to financial markets. While there is unanimity all across the globe on the need of adequate transparency, good corporate governance, efficient risk management, strict supervision of financial institutions and sustainable macro-economic policies, there is no set pattern of regulation that can be applied to all countries. As such, in order for the sustainable rules to be developed, effective coordination between a broad majority of countries is required. The economies of South Asia must therefore provide maximum cooperation to achieve harmonization of regulatory standards in as many sectors as possible.