

# SECURITIES AND EXCHANGE COMMISSION'S EMINENT SPEAKERS SERIES

MANAGING MARKETS: GOVERNANCE AND REGULATION IN  
TODAY'S CONTEXT

SPEECH DELIVERED BY UK HIGH COMMISSIONER BOB DEWAR  
TO THE STAFF OF THE SEC 31<sup>st</sup> AUG 2010

## Introduction

Ladies and gentlemen it is a pleasure to be here to talk to you today. Let me start by thanking the Director General for inviting me and for according me such a warm welcome to the Securities and Exchange Commission.

I'd also like to commend her, and all of you, on your work in recent months.

Like financial centres all over the world, Nigeria's capital markets and banking sector have come under stress and the spot light in recent times, partly because of local issues relating to market integrity and poor behaviour, partly linked to the impact of the global financial crisis.

Your work is key to rebuilding investor confidence in Nigeria. It is important to reform, restructure and rebuild the sector, putting it on a firm footing going forward, Not just for the benefit of the markets in Lagos, but for prosperity of Nigeria and Nigerian investors more widely- and for foreign investors because we are in an interconnected world. I am pleased we are able to support you through the Department for International Development and hope to support you further under the Financial Sector Strategy 2020 reform process, when that takes off. Both the UK and Nigeria are open and outward looking countries, determined to do our full part to expand world trade again, from which we can all benefit. The UK is open for business and we are Nigeria's logical gateway.

Your financial, banking and regulatory leaders have a range of considerations to address. But I would pick on two key aspects in the Nigerian context. Firstly your efforts should involve the application of and belief in better corporate governance and better risk management. And that means behaviour of investors and behaviour of regulators- combined with a good legal system and consistent application of the rule of law. Insider dealings, share price manipulations, excessive risk taking, connected lending, all these issues had a damaging effect on some banks and the Stock market here, affecting millions of investors.

With new leadership you are doing an important job in changing all that, in aiming to mainstream proper standards and properly regulate and develop the capital market, to forestall breaches and to restore confidence.

But most important, the private sector itself has to behave correctly, fighting corruption and rebuilding confidence by their behaviours, acting out corporate governance, not just talking about it. And they cannot be ignorant of the SEC's efforts, your efforts. As the Nigerian saying goes : 'the tongue cannot claim to be ignorant of what the teeth are doing.'

Secondly this needs to be a sustained joined up effort right across your banking and financial sectors. Regulators need to uphold the standards and rules while also developing a strong, world class system in the financial and banking sectors and capital markets. This requires a coherent approach from the Ministry of finance, Central Bank, SEC, NSE and all linked institutions. And I will speak a bit more about what the G 8 and G20 approach is, working together and working forward.

At this point you may be interested in the impact of the global financial downturn on Britain, and our response. This may provide some useful thoughts and ideas as you continue the vital work of implementing your own reform and restructuring agenda here in Nigeria.

### **The Global Financial Crisis**

The global financial crisis has brought a very difficult economic situation, requiring some bailouts and affecting output. So large have been the bailouts that it has forced regulators, economists and bankers across the world to rethink some of the fundamental principles of how financial markets operate. We face similar questions to you- eg how do we shore up financial markets, trading practices, and bank balance sheets to ensure we are not thrown into difficulty again?

And the unsustainable increase in private sector debt that precipitated problems across the globe has yet to be eliminated. In the UK, some has been shifted from private sector balance sheets to the public sector. A situation which can draw parallels with experiences in this country especially as Nigeria undertakes to establish an Asset Management Company.

### **The UK response**

In the UK the Government's response has been quick, bold and energetic.

Firstly firmly tackling the budget deficit, as set out in our recent Budget. Secondly working holistically across government and the private sector in a joined up and professional approach. That means the Treasury, Bank of England, City of London and many measures, inter-related and interdependent. The integrity of key institutions is underpinned by their independence. An independent Office for Budget Responsibility has been established. The Bank of England is already independent. They are immune to temptations of the political cycle.

Banking and financial services have also had to be addressed, removing uncertainty about how regulation will be coordinated and by whom. Removing uncertainty is important because it can make it more difficult for companies to plan for the future and can lead to a hoarding of excessive capital instead of more lending to business. Something we are seeing right now in Nigeria. This is not a simple matter since at

the root of this question is judgement of the proper balance needed between safety and risk-taking, between protection for the taxpayer and returns for the economy.

It is now accepted that the centrepiece of the new global standards for bank regulation will involve higher capital and liquidity requirements, and that bank capital requirements should respond to the cycle. The G20 Finance Ministers and Central Bank Governors agreed in June to providing the details of the new capital, liquidity and leverage requirements by the meeting in Seoul in November. The markets are already anticipating what they might be, and the banks are building up larger reserves to prepare themselves.

The issues over which our experts are pondering include the rapid unsustainable increase in debt; the need for appropriate macro-prudential regulation; the future shapes of banking activities; who should hold the regulatory levers etc.

We believe only independent central banks have the broad macroeconomic understanding, the authority and the knowledge to make good macro-prudential judgments.

Whilst supporting the G20 process, we also believe we need to get on and resolve the uncertainty right away. So a lot of change and review is under way in the UK, as follows.

The UK Government is setting about restructuring the previous tripartite system of Bank of England, FSA, and Treasury. The Financial Services Authority will become a new prudential regulator, operating as a subsidiary of the Bank of England, carrying out the prudential regulation of financial firms, including banks, investment banks, building societies and insurance companies. An independent Financial Policy Committee at the Bank of England will be established. to look across the economy at the macro issues and take effective action. A new Consumer Protection and Markets Authority will be created – perhaps most closely aligned in function to an SEC- to regulate authorised financial firms providing services to consumers, ensuring good conduct of business in the UK's retail and wholesale financial services. The UK will create a single agency to take on the work of tackling serious economic crime that is currently dispersed across a number of Government departments and agencies. And there is an independent commission on the banking industry to look at the structure of banking in the UK, the state of competition in the industry and how customers and taxpayers can be sure of the best deal.

The transition to this new system will take time and coordination, but should be completed in 2012.

We are determined to preserve the UK's reputation for transparency, fairness and efficiency as well as our position as one of the world's leading financial centres.

We need to demand the highest levels of transparency from banks, and to encourage published stress tests where they have not taken place, because concealing the truth merely delays necessary adjustment. Here I should pay tribute to the work of the Governor of the Central Bank ably supported by Mrs Oteh, and indeed all of you, in turning to this very problem in Nigeria. Continued publication of

the financial details of banks and for that matter all listed companies is paramount to ensuring transparency but also credibility of your financial markets.

## Summary

Like Nigeria, the UK have had our own challenges in respect of financial services.

They are different in some ways to yours, therefore the response may need to be too. But what the experience of recent years has shown is that fundamental reform is an absolute requirement.

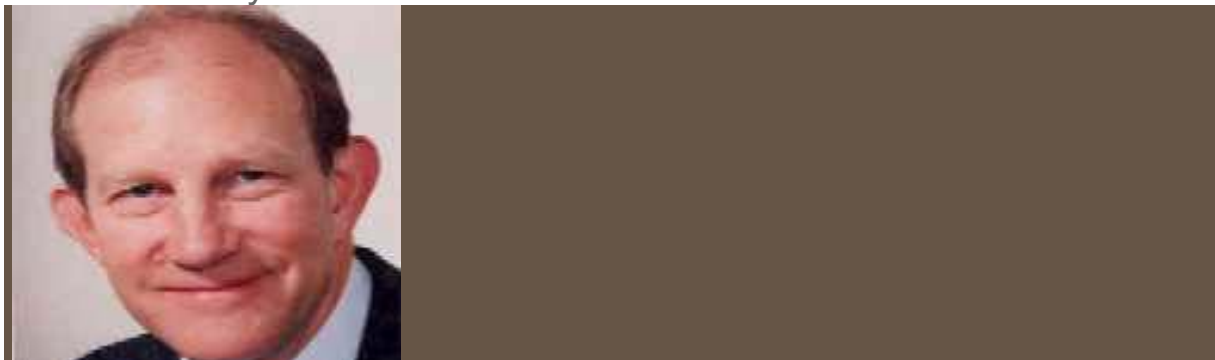
And we are all interconnected. Our economies need growth which should come from rising productivity and at the G20 we all agreed to pursue structural reform to increase and sustain our growth prospects. To help banks withstand future crises we agreed that the amount of capital would be higher and the quality improved, together with new standards on the quantity, quality and transparency of capital and liquidity.

All this needs to be taken forward in a way that does not mean a reduction in bank lending at this stage of recovery. That again highlights the importance of stimulating the world economy by expanding trade, avoiding protectionism.

Once again we come back to confidence, to transparency and accountability, towards which you play an important role in your own country's system. Reform must be addressed systematically, focusing on the key aspects that will avoid the same mistakes being made in the future. These include transparency, better and clearer regulation, and improved institutions with the mandate and independence to make the right decisions for the country, quite separate to and uninfluenced by political interests. And it is worth stressing again the balance that needs to be struck between the goals of an open trading economy and good regulation, aiming for a high quality outcome which is win-win for taxpayers, investors and the economy both domestic and international.

There is much work ahead to bring about reform, better regulation and better governance. I wish you all success. Thank you.

## Career history



Full Name	Robert Scott Dewar CMG
Married to	Jenny
Children	2
Date of Birth	10 June 1949
2007	Abuja, British High Commissioner
2003 - 2007	Addis Ababa, British Ambassador/ Permanent Representative to the African Union
2000 - 2003	Maputo, British High Commissioner
1999	Centre for Study of African Economies, Oxford
1996-1999	Antananarivo, Her Majesty's Ambassador
1992 - 1996	Harare, Deputy High Commissioner
1988 - 1992	Dakar, Head of Chancery and First Secretary Commercial
1984 - 1988	FCO, First Secretary
1981 - 1984	Luanda, Head of Chancery, First Secretary Commercial and Consul
1979 - 1981	FCO, Section Head for Nigeria, Cameroon and Gabon
1974 - 1978	Colombo, Third, later Second Secretary