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REGULATION AND MODERNIZATION OF THE FINANCIAL MARKETS

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Introduction

If we begin with the defining of the term market as a: total reference of the offer and the demand, which at a certain place and time, affects the sale of certain products and is a sum of all institutions, areas and devises that provide organized and constant contact between the purchasers and merchants: and than we complement to the market structure that must comprise: participants, products, time and spatial determination, instrumental, technical and institutional determination and so on; we imply to a complexity of concept that requires exactly determined work and management.

The financial market, on his side, is even more complex. On the financial market is operating with instruments that are not instantly visible, it is referring to transactions. The transactions, on the other hand, have its one weight from the aspect of the fact that they influence potentially not only on the client that execute the buying and selling, but the entire economy in the country, and in foreign.

All this brings up the question of the working method of a market; in this case, it is a financial market.

Therefore, it does not refer whether the working method will be unified, but it refers to the control of the type of work executed from this sum of institutions, legal and physical entities

There are complex systems for regulation of the financial markets and institutions[1] that include: informational, monetary regulation, regulation of the financial activities, institutions, participation of the foreign participants etc.[2] Each of these forms of regulation is necessary due to the simple possibility of moral risk appearance, inside commerce and so on, as well as the need for coordination of the total economy, interest rates, cur-

[1] Subjects of regulation are: Organized exchanges and financial markets, Futures market exchanges, Federally chartered commercial banks, Federally chartered credit unions, State-chartered depository institutions, Commercial banks, mutual savings banks, savings and loan associations, All depository institutions, Savings and loan associations.

[2] Михаил Петковски, "Финансиски пазари и институции", Универзитет "Св. Кирил и Методиј", Економски факултет – Скопје, 2004 година, page 65

rency courses, obligatory reserves. Here come also the financial mediators with the rights and obligations they have toward the sides executing certain financial agreement.

All these systems for regulation of the financial markets and institutions are not only necessarily created, but also necessarily upgraded and modernized so they can respond to the potential financial crises.

Regulation and modernization of the financial markets

The regulation of the financial markets is necessary.

It is also necessary the modernization of the financial regulation.

The reasons for regulatory reforms lay in the financial innovations, globalization, and financial crises.[3] These processes have a larger influence and their effects are not felt only by one country, but it refers to international dimensions.

The financial markets are a dynamic category that under the influence of the speed of life and work, changes every day, new financial instruments appear, markets are opening and don't have boundaries, and on the other side, the repercussions stand all subjects.

The type of regulation used by the countries can be and is different in different regions, countries, in a global sense. There are models or so called types of regulation as the British; used in the USA and Japan; European-continental or known as universal banking.[4] It refers to the fact how much is allowed the execution of several activities by one institution or the activities are divided into separate institutions. For example, in the USA the banking activity and those related to the work of securities are separated, whereas in the universal banking of the banks it is allowed to execute activities related to the securities.

Therefore, each country has a determined structure for the financial market, whereby it is clear which organization can execute certain activities and the authorities that delegate its activities and to who submits reports for its work.

Regardless of the intensity of development of the country and its applications of modern financial work and now much the financial activities are integrated or concentrated in particular institutions, this structural determination, organization and regulation of the financial markets is the solution to the potential problems that can occur if they are left on their on. The seriousness of these problems can have such repercussions that can comprise the world economy. An example for that is the petrol shocks

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[3] Михаил Петковски, "Финансиски пазари и институции", Универзитет "Св. Кирил и Методиј", Економски факултет – Скопје, 2004 година, page 67

[4] Ibid, page 68

in 1973-1974, 1979-1980, as well as the present who, viewed not by the aspect of the influence of the prices on the movement of the offer and demand of goods, but by the influence of these changes on the stock exchange work, credit demand and investment, show implications of world measures. Another example is the crisis in the New York Stock exchange in 1987 that shook the world financial market and not only the New York market[5].

Thus, it appears that even the biggest world economies are liable to strikes of systematic character, i.e. the systematic risk can comprise a certain country, that, if considered as an enterprise, is not capable to diversify the risk, but the complexity lays in the fact that the consequences can affect the work of other enterprises (or countries) to and can take world size. For these reasons, each country builds structures mentioned before. These structures are not static.

In the USA, a country who has the prime in financial work and its modernization and with a market that evidences a turnover of billions dollars per year, there is a complexly developed regulation of the financial market. Some may understand this as a necessity that has to respond to the

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[5] The same happens these days, to be more precise, the news on September 16, 2008 that Lehman Brothers (the forth-biggest investment bank in America) had bankrupted, shook the world financial markets, such as The New York, London, Paris, Moscow and Tokyo Stock Exchange. The stock exchange indexes drop galloping. There was even an influence on the petrol price, which marked a drop on September 16 and reached a price of 92 US dollars per barrel. The experts interpreted this as a response to the current actions on the stock exchanges and the potential demand decrease for raw materials and energy. The liquidation of Lehman Brothers is a result of the bad mortgage credits and sales and it appeared because of the unsuccessful negotiations about the ransom of Lehman Brothers by the "Bank of America" on September 16, 2008. "Goldman Sachs" is the biggest investment bank in USA and one of the two banks of the former American "big banking pentacle" that are still active, the second bank is "Morgan Stanly". The remaining three banks of the "pentacle", "Bear Stearns" bankrupted last spring, "Lehman Brothers" declared bankrupt, and "Bank of America" is buying "Merrill Lynch".

These occurrences did not leave USA indifferent and without response. On September 19, 2008, the Federal reserve system adopted a decision to act with 85 billion dollars, only to help neutralize the potential and expected negative consequences of the occurred situation. Does that mean that this is the end of the neo-liberal era? In addition, Barclays from England give a statement that they are buying Lehman Brothers, which is practically bankrupted, with the explanation that to them this is not an every day opportunity. The petrol price is rising again!

What is the interpretation of all this? For some, the course of actions is only the beginning of the crisis, which is conformed to the closure of the Moscow Stock Exchange, where these days, it is noted a RTS drop of 10%. For others the crisis is the end of the recessive actions that followed the world economy in the past years. The time will tell how will develop this situation and only the future will truelly show what is the "game" behind all that!

greatness of that market, diversity of instruments used in commerce, and others as a caution from unpredictable (predictable as well) situations.

On March 31 2008, the US department of treasury, in order to improve the competence on the US capital market issued a "Draft for modernization of the financial regulatory structure".[6]

This Draft shows the American ambition and need to follow the world trends and occurrences on the financial markets. With the Draft is concluded that the reforms are necessary in direction to provide answer to the significant advance, globalization of the capital market, the new and sophisticated financial products (instruments), selling strategies, growth of industrialization of the capital markets, as well as the convergence between financial mediators and products.

If we pose the question, why modernize America when she is the most modernized and others long to achieve her level, at least when referring to the application of the financial instruments, modern banking, clearing and so on? The Americans will say: "it is important to continue the evaluation of our regulatory structure and the modes for improving the efficiency, reducing the nodes, consolidation of the consummation and investment protection as well as confirmation that the financial institutions have the ability to adjust and adapt to the development market dynamic".[7]

This Draft gives short term, middle term and long term recommendations.[8] Short term:

- Modernization the President's Working Group on financial markets
- Address Gaps in Mortgage Origination Oversight
- FRB Liquidity Provisioning

Middle term:

- Banking Structure Reforms
- Securities Structure Reforms
- Payment and Settlement Systems Oversight
- Optional Federal Charter for Insurers

Long term:

- The "objectives-based regulatory approach
- Charters for financial institutions
- The FRB as the market stability regulator
- The prudential financial regulatory agency
- The conduct of business regulatory agency

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[6] www.wilmerhale.com/files/Publication/06e0e363-3498-4af7-8eac-fab6ee471724/Presentation/PublicationAttachment/1171f6e0-8fc6-46e

[7] Ibid

[8] Ibid

- Other regulations.

These recommendations refer to expanding the focus of President Working Group on Financial Markets – PWG that should be directed towards the entire financial sector; the facilitation of coordination and influence on the alleviation of the systematic risk on the financial system, integrity consolidation of the financial market, promotion of protection of the savers and investors and support of the efficacy and competence of the capital market, in order to create and implement the uniform and minimal qualification standards.

In England, on the other hand, until 1986, the Bank of England had the role of regulation and control of the financial markets. From 1986 the regulation in this country suffers certain changes and is put under government control with a Financial Services Act.[9] In October 1997 the Securities and Investments Board (SIB) changed to Financial Services Authority (FSA) that continued to execute the functions of SIB and some other activities.

FSA is an independent body that executes the regulation of financial service sector in England. Their three strategic goals are: [10]

- Promotion of efficacy, order and fair market relations
- Helping the participants on the financial market in achieving fair agreements
- Proving and improving their capability and effectiveness.

Hence, modernization of the regulation of the financial markets is directed toward fair relations, bigger transparence, coordination, reducing the time gaps, diligence.

Common characteristic of the big economies in the regulation of the financial markets is the desire for more sophisticated measures. Their goal is not directed toward the offer to the companies to identify them self's in their work (which was the problem with the Macedonian firms and their participation on the stock exchanges), but to come to a higher level that moves to modernization, and not setting the regulation of the financial market. However, on the other hand, the potential complications of these big financial markets work can influence much more to the occurrences in the world economy, than the shakes in a small open economy can influence the world economy. Prove of this are also the data offered in the table below that shows the average daily turnover of the most significant economies for 2001, 2004 and 2007 presented in US billion dollars.

This confirms that the attention most be even bigger for the reason that consequences of certain disturbances will also overcome the markets

[9] www.futureslaw.com/regulation%20of%20UK%20markets.htm
[10] Ibid

of currency exchange, but they can see the markets of real goods to, and all that to reflect on the interest rates, rents, unemployment rate and so on.

Therefore, the regulation most exist, but most be currently revised and modernized in order to respond to the present needs.

Average Daily Turnover in Major Markets

1. Foreign Exchange Market Activities

US$ billions

2001			2004			2007		
① United Kingdom	504	< 31.2% >	① United Kingdom	753	< 31.3% >	① United Kingdom	1,359	< 34.1% >
② United States	254	< 15.7% >	② United States	461	< 19.2% >	② United States	664	< 16.6% >
③ Japan	147	< 9.1% >	③ Japan	199	< 8.3% >	③ Switzerland	242	< 6.1% >
④ Singapore	101	< 6.2% >	④ Singapore	125	< 5.2% >	④ Japan	238	< 6.0% >
⑤ Germany	88	< 5.5% >	⑤ Germany	118	< 4.9% >	⑤ Singapore	231	< 5.8% >
⑥ Switzerland	71	< 4.4% >	⑥ Hong Kong	102	< 4.2% >	⑥ Hong Kong	175	< 4.4% >
⑦ Hong Kong	67	< 4.1% >	⑦ Australia	81	< 3.4% >	⑦ Australia	170	< 4.2% >
⑧ Australia	52	< 3.2% >	⑧ Switzerland	79	< 3.3% >	⑧ France	120	< 3.0% >
⑨ France	48	< 3.0% >	⑨ France	64	< 2.7% >	⑨ Germany	99	< 2.5% >
⑩ Canada	42	< 2.6% >	⑩ Canada	54	< 2.2% >	⑩ Denmark	86	< 2.2% >
Total	1,200		Total	1,880		Total	3,210	

Notes: 1. Figures in parentheses indicate share in totals (Applies also to Table 2 below).

2. Each local figure is adjusted for local double-counting of transactions between reporting institutions. Double-counting of cross-border transactions between reporting institutions are also adjusted by the BIS. Thus, the simple aggregation of the results of each participating countries and regions will not equal the global total released by the BIS (Applies also to Table 2 below).

3. Figures for local and global total are subject to revisions (Applies also to Table 2 below).

2. OTC Derivatives Market Activities

US$ billions

2001			2004			2007		
① United Kingdom	275	< 36.0% >	① United Kingdom	643	< 42.6% >	① United Kingdom	1,081	< 42.5% >
② United States	135	< 17.7% >	② United States	355	< 23.5% >	② United States	607	< 23.8% >
③ Germany	97	< 12.7% >	③ France	154	< 10.2% >	③ France	183	< 7.2% >
④ France	67	< 8.8% >	④ Germany	46	< 3.0% >	④ Germany	93	< 3.7% >
⑤ Netherlands	25	< 3.3% >	⑤ Italy	41	< 2.7% >	⑤ Japan	88	< 3.5% >
⑥ Italy	24	< 3.1% >	⑥ Japan	39	< 2.6% >	⑥ Ireland	85	< 3.4% >
⑦ Japan	22	< 2.9% >	⑦ Belgium	32	< 2.1% >	⑦ Switzerland	73	< 2.9% >
⑧ Spain	21	< 2.7% >	⑧ Netherlands	22	< 1.5% >	⑧ Singapore	69	< 2.7% >
⑨ Switzerland	15	< 2.0% >	⑨ Australia	18	< 1.2% >	⑨ Italy	32	< 1.3% >
⑩ Belgium	14	< 1.8% >	⑨ Switzerland	18	< 1.2% >	⑩ Australia	29	< 1.2% >
Total	575		Total	1,220		Total	2,090	

Table: Average Daily Turnover in Major Markets[11]

Conclusion

It is specific to give a conclusion for this topic! Why? Because there are many things established, but there is not a hundred percent confirmation that the regulation will be successful, so it is necessary to continue working all the time.

All that comprises this work, which are the need of regulation and its current according, what is the situation in world frames and in which directions should continue, in the end leads to the fact that the economy is economy. It is very rare to give a 100% confirmation of something. Thus, the "Draft for modernization of the financial regulatory structure, that

[11] www.boj.or.jp/en/type/stat/boj_stat/deri/deri0704.htm

represents one of the last reconstructions of the US regulatory regime, as a result of the more often financial crises, doesn't execute enough consolidation of the supervision of the financial markets and still leaves a space for so called institutional form of regulating, instead directing toward functional form of regulation".[12] It is also the same situation in Great Britain "FSA showed weakness in the identification and dealing with the decline of Northern Rock Bank in 2007. Thus, the two systems showed failure in dealing with important financial crises, in spite the fact that both USA and Great Britain are internationally appreciated as countries with best application of the supervision of the financial markets".[13]

In addition, what would be the conclusion, after all? The regulation is necessary, obligatory, but its implementation does not mean that the work is done. She needs to be constantly updated for the reason that financial markets abounds in many participants and instruments, where the boundaries can have no meaning at all. Thereby, the financial crises who can occur can move without "visas" and in a moment can take over the entire world. If we add the fact that a part of these crises can be anticipated, the question is way can't the financial supervision run them over? But, it is a question whether she can do it in that way? Hence, the world economies should insist to forming of these regulations that will be primarily applied in practice. The economy should lean more and more to the quantity methods and anticipations should be more precise, and not to come down to the possibility that something will happen.

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