CHALLENGES FOR FINANCE REGULATOR

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Abstract

Finance regulators are very important institutions for normal economic development of the country and good international cooperation in great extent depend from efficient work of finance regulator. Finance regulator has to be properly financed and this is also e very important aspect which is analysed also by academic researchers. Aim of current research paper is to investigate possible developments of finance regulator financing based on analysis of current legislative documents and expert views on possible future developments of finance regulator financing. Research methods applied: analysis of scientific publications and previous conducted research, analysis of legislative documents on finance regulator financing, expert survey. Data of expert survey are analysed by indicators of descriptive statistics. The results of the expert survey has indicated that there have to be prepared regulations for better motivation of market participants from one side and acceptable financing of finance regulatir from other side.

Key words

finance regulator, financing of finance regulator

JEL Classification: G18; G28

Introduction

Finance regulators are very important institutions for normal and efficient economic development of the country and good international cooperation in great extent depend from efficient work of finance regulator of the respective country. Finance regulator has to be properly financed and this is also e very important aspect which is analysed also by academic researchers world-wide.

Aim of current research paper is to investigate possible developments of finance regulator financing based on analysis of current legislative documents and expert views on possible future developments of finance regulator financing.

Research methods applied: analysis of scientific publications and previous conducted research, analysis of legislative documents on finance regulator financing, expert survey. Data of expert survey are analysed by indicators of descriptive statistics: indicators of central tendency or location (arithmetic mean, mode, median), indicators of dispersion (variance, standard deviation, range and standard error of mean).

Literature overview

Many countries world-wide pay a lot of attention for best possible organisation and financing of finance regulators as from their efficient work depend many aspects and activities in economy. Researchers have found that "substantial regulatory reform is necessary to respond to significant developments including globalization of the capital markets, innovative and sophisticated new financial products and trading strategies, growing institutionalization of the capital markets, and convergence of financial service providers and financial products" (Becker, et al, 2008, pp. 37). Research results (Fallon, 2015, pp. 106; Holland, 2019, pp. 53) have discovered the inside story in banking crisis. Researcher (De Koker, 2009, pp. 349) has worked several important aspects on identifying and managing low money laundering risk. Government policies and corporate financing decisions – how theory and evidence can come together in China (Qiao, 2013, pp. 108). Researcher (Cooray, 2011, pp. 931) has analysed in detail the role of the government in financial

sector development. Researcher (Preda, 2005, pp. 468) has investigated legitimacy and status groups in financial markets. Researchers (Bovens, et al, 2014, pp. 126) have discussed on public accountability where finance regulator has an important role. The study (Sathye, Patel, 2007, pp. 401) shows several commonalities and differences in the financial intelligence agencies in Australia and India and points to operational and policy changes required in making the units more effective. Several aspects of regulations in Malaysia and Indonesia are covered by several researchers (Amalina Wan Abdullah, et al., 2013, pp. 129) and has suggested practical steps for regulators. Researchers (Hazli, Ghafar, 2008, pp. 105) have found that banks' involvement in securitization activity needs to be regulated or restricted since excessive securitization activities could curtail credit and increase risk inherent in banks' lending portfolio. Researchers (Santangelo, Jacobs, 2005, pp. 12) have concluded that both law enforcement and regulators have embraced stricter anti-money-laundering enforcement standards despite some criticism from the financial industry, and that recent criminal enforcement actions bear careful analysis by the financial community; predicts that regulators and law enforcement officials will broaden their scope from banking institutions to include broker-dealers and other non-bank institutions as well; and recommends that all financial institutions devote greater resources to establish effective anti-money-laundering policies and procedures, particularly in the areas of due diligence for high-risk customers and suspicious activity reporting. Among the most important and deepest analysis by International Monetary Fund (Novoa, Seelig, 2009, pp. 68) has paid attention to governance practices at financial regulatory and supervisory agencies. Different aspects of finance regulation are covered by several researchers (Bértoa, et al, 2014, pp. 372; Schillemans, 2016, Wymeersch, 2007, pp. 301; pp. 1417; Holland, 2009, pp. 185; Witko, 2005, pp. 307; Palepu, et al, 2008, pp. 17; Haslam, 2010, pp. 644). Several aspects related to information technology application is analysed by researchers (Cooper, et al, 2017, pp. 279) with practical suggestions as result of their investigation. Researchers (Christensen, Lægreid. 2011, pp. 65) have analysed new public

management approaches with finance regulator involvement. Researcher (Murphy, 2006, pp. 439) has analysed the disclosure and sharing of sensitive information and revisiting risk in co-operating regulatory regimes, Importance of regulator's communication (Liff, Wahlström, (2018, pp. 254) is rised by researchers in academic research as well as to new approaches due the new technologies (Zekos, 2003, pp. 291) possibilities and applications in finance sector regulation.

Findings on current situation in Latvia and possible changes

In Republic of Latvia (Saeima (Parliament of Republic of Latvia). 2000, pp. 5.) has accepted Law on Finace Regulator where all main aspects are covered including financing of the Repulator. Since than there have been severeal critical approaches and suggestins for change of financing of the Finance Regulator and were suggestions to take into account experience of other countries in this respect.

Recently there are applied new technologies and introduced new finance products, new companies but not all aspects are regulated by finance regulator (FKTK, 2014 and FKTK, 2019). Therefore there are needs in changes in finance regulator. Currently there are several possibilities to cover expenses of finance regulator:

• To some segments are determined minimal annual payments;

• To other segments – fixed payment and payment from activity in the market (indicator for basic payment);

• To some segments – minimum annual payment and limited payment during the year (maximum annual payment);

• To some segments – only payment from activity of market participant (indicator for basic payment);

• To some segments – payment is not determined.

Distribution of different kinds of payments for finance reulator in Latvia is reflected in table 1.

Table 1. Distribution of different kinds of payments for finance reulator in Latvia

Segments	Minimal payment	Fixed payment and payment on applied level of payment for payment basis	Payment on applied level of payment for payment basis	Limited annlal payment (maximal annual payment)
Insurance companies	-	-	X	-
Reinsurance companies	-	-	X	-
Insurance brockers	X	-	X	X
Insurance agents	-	-	-	-
Private pension funds	-	-	X	-
Creditinstitutions	-	-	X	-
Investment brocker companies	X	-	X	-
For organisers of regulated market	X	-	X	-
Depositories	X	-	X	-
Emitents	-	-	-	-
External credit rating institutions (rating agencies)	-	-	-	-
Investment management companies	X	-	X	-
Alternative investend fund managers	X	-	X	-
Cooperative lending companies	-	-	X	-
Payment institutions	-	X	-	X
Electronic money institutions	-	X	-	X
Institutions offering innovative services	X	-	-	-

Source: Prepared by Rita Vanaga based on analysis of regulations

In general for subjects of finance market it is payment for finance regulator which is determined according the regulations applying or not applying certain cofefficient per respective year. Such approach is called as linear financing model. Additional payments on activities of finance regulator related to registration, licensing, is not the same for all in different segments - data are included in table 2.

*Table 2. Payment for permission on licences and registration (actual)*

Segments	Payment for licence	Payment for registration
Insurance companies	Not determined	-
Reinsurance companies	Not determined	-
Insurance brockers	-	Is determined
Insurance agents	-	Is determined
Private pension funds	Not determined	-
Creditinstitutions	Not determined (payment has to be made only once – when licence is issued)	-
Investment brocker companies	Not determined	-
For organisers of regulated market	Not determined	-
Depositories	Not determined	-
Emitents	Not determined	-
External credit rating institutions (rating agencies)	Not determined	Is determined (only for registration)
Investment management companies	Not determined	Is determined (only for registration of alternnative investments)
Alternative investend fund managers	Not determined (payment has to be made only once – when licence is issued)	-
Cooperative lending companies	Is determined	Is determined
Payment institutions	Is determined	Is determined
Electronic money institutions	-	Is determined

Source: Prepared by Rita Vanaga based on analysis of regulations

To find the best possible changes on current situation it was conducted exper survey where several important aspects were analysed and sumarised. Distribution of expert evaluations on statement „Market participant (MP) determined payment amount is fair among the segments (are determined in correspondence with monitoring expenses)" with arithmetic mean of the expert evaluations which was 5,41, median 5 and mode 5 (in evaluation scale 1-10, where 1 – fully disagree and 10 – fully agree) are included in figure 1.

Fig. 1. Distribution of evaluations of the statement „Market participant (MP) determined payment amount is fair among the segments (are determined in correspondence with monitoring expenses)"
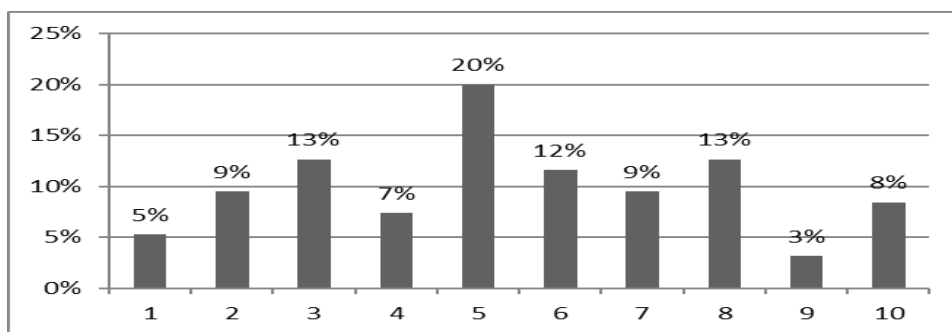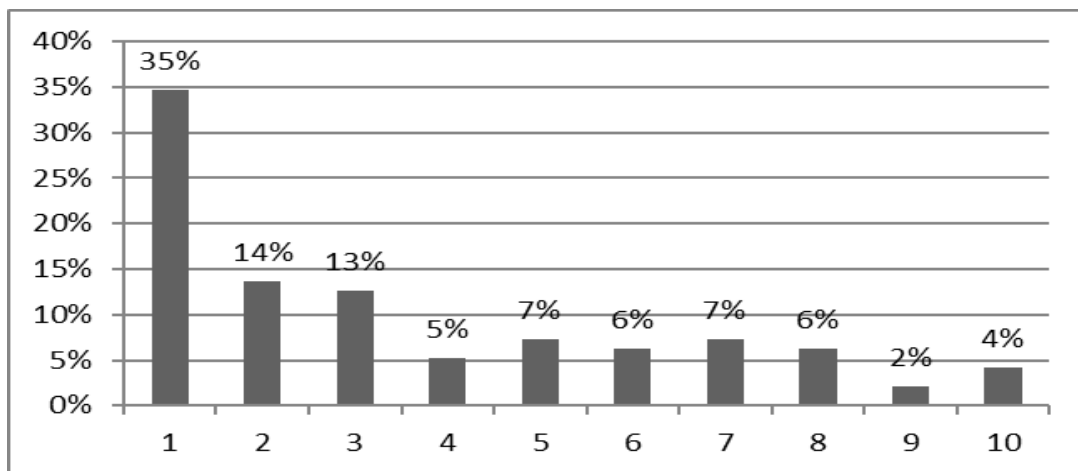

Source: Rita Vanaga conducted expert survey, Evaluation scale 1-10, where 1-fully disagree; 10-fully agree; n=95, share in percent, %

As information included in figure 1 on expert evaluations for analysed statement indicate that 32 % of experts (evaluation 5 and 6) has neutral attitude on finance distribution among the segments for financing of Financ and Capital Market Committee (FCMC) and 34% (evaluations from 1 till 4) - negative attitude to that, but 33% (evaluation 7-10) - positive

attitude, incuding 8% - fully agree with the statement.

Negative attitude of experts was for the statement „MP have to support monitoring of other MP (if such segment is small/not developed)" – distribution of expert evaluations is included in figure 2.

Fig. 2. Distribution of evaluations on the statement „MP have to support monitoring of other MP (if such segment is small/not developed)"
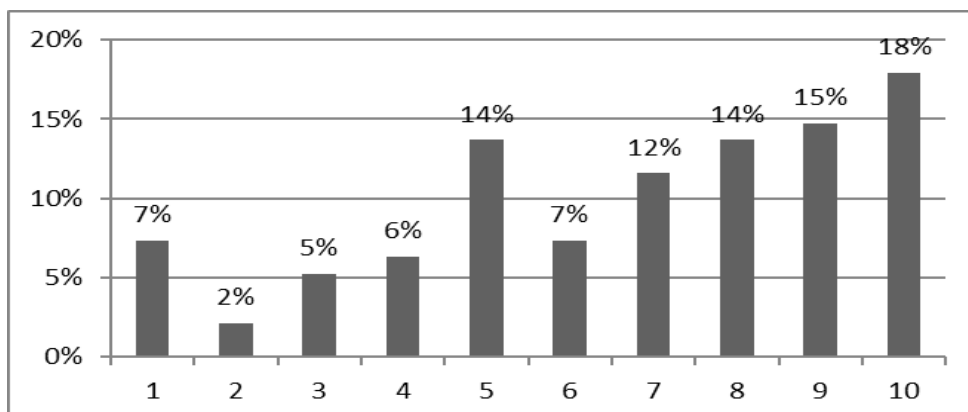

Source: Rita Vanaga conducted expert survey, Evaluation scale 1-10, where 1-fully disagree; 10-fully agree; n=95, share in percent, %

As data included in figure indicate the expert evaluations from 1 till 4 are given by 67% of respondents with aritmetic mean 3,59, median – 3, mode - 1, standarddeviation - 2.785. The results clearly indicate thar market particopants are not ready to finance the development of other participant in the market.

Distribution of evaluations on the statement „MP have to be classified according their risk profile and payment has to be settled bigger for more risky MP and decreased payment for less risky MP" are included in figure 3.

Fig. 3. Distribution of evaluations on the statement „MP have to be classified according their risk profile and payment has to be settled bigger for more risky MP and decreased payment for less risky MP"

Source: Rita Vanaga conducted expert survey, Evaluation scale 1-10, where 1-fully disagree; 10-fully agree; n=95, share in percent, %

The information included in figure 3 indicate that the giggest share of respondents - 59% (evaluation 7-10), including 18% - fully agree that market participants have to finance FCMC depending from the risk degree of the market participant, 20% (evaluation 1-4) – do not supprt such approach, but 21% (evaluation 5 and 6) respondents are neutral for this aspect. For expert evaluations for this statement arithmetic mean was 6.67, median - 7 un mode – 10, and standard deviation – 2.742.

Distribution of evaluations on the statement „MP have to be classified by their volumes and organising them in groups with fixed payment per year" is included in figure 4.

Fig. 4. Distribution of evaluations on the statement „ MP have to be classified by their volumes and organising them in groups with fixed payment per year"
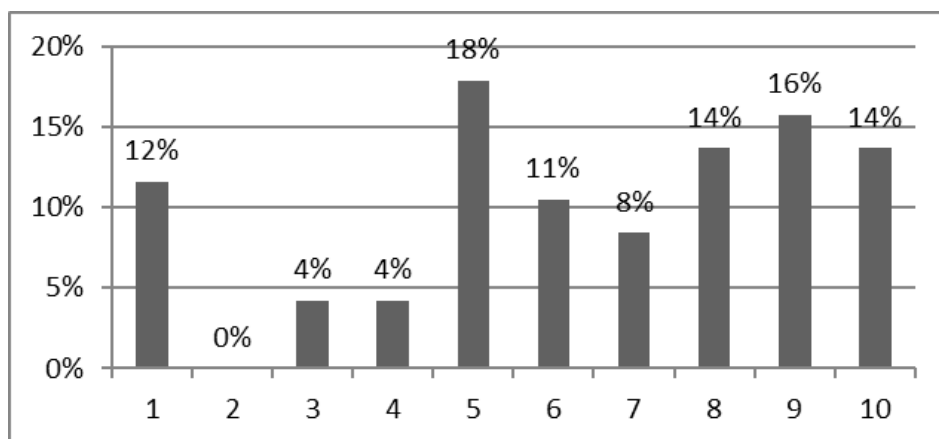
Source: Rita Vanaga conducted expert survey, Evaluation scale 1-10, where 1-fully disagree; 10-fully agree; n=95, share in percent, %

Data of expert evaluations indicate that 52% of expers gave very high evaluations (evaluations from7-10), with arithmetic mean 6,41, mode ir 5, median 7, standard deviation 2,789.

Distribution of evaluations of the statement „Minimum amount for financing of FCMC have to be determined for all MP" is included in figure 5.

Fig. 5. Distribution of evaluations of the statement „Minimum amount for financing of FCMC have to be determined for all MP"
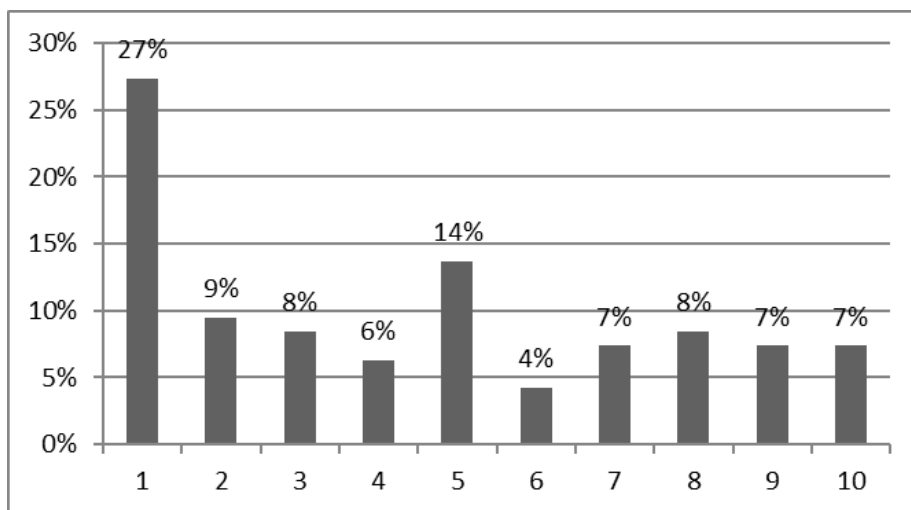
Source: Rita Vanaga conducted expert survey, Evaluation scale 1-10, where 1-fully disagree; 10-fully agree; n=95, share in percent, %

Half of experts gave evaluations 1 till 4, reflecting view of 50% of experts with arithmetic mean of the evaluations which was 4,49, median 4 mode 1 (most often given evaluation by experts – it means that 27% of the experts did not agree that minimum amount for financing of FCMC have to be determined for all market participants, and standarddeviation of the evaluations was 3,09.

The results of the expert survey has indicated that there have to be prepared regulations for better motivation of market participants from one side and acceptable financing of finance regulatir from other side.

Conclusion

Finance regulators in different countries are financed by different ways and each of them has their certain advantages and also problematic aspects.

In Latvia different finance institutions have to contribute to finance regulator by different approaches.

In Latvia finance experts have different views and they have suggested apply different approaches to improve the situation.

The results of the expert survey has indicated that there have to be prepared regulations for better motivation of market participants from one side and acceptable financing of finance regulatir from other side.

Acknowledgments

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