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## Big Wall Street firms agree rules needed for hedge funds

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SOME of Wall Street's largest investment firms yesterday agreed that there should be some form of regulatory environment to discipline the hedge fund players while ruling out a regulated hedge fund market.

Goldman Sachs & Co senior partner Jon Corzine said while there was already extensive reporting requirements in the system, the "regulatory environment" was missing.

"Many believe that this is the weakness (of the system). We think that there should be some form of regulatory reporting such as giving the proper authorities the power to (use) moral suasion," Corzine said in Kuala Lumpur yesterday.

Earlier, while outlining steps that could be taken taken by developed countries, emerging economies and international institutions alike to provide the foundation for strengthened and effective capital markets, Corzine called on developed economies to instill greater discipline and transparency in international capital flows to emerging markets.

"This effort requires improved private risk-management systems, heightened governmental supervision, and increased transparency and official reporting, if not regulatory, requirements for hedge funds," he said.

He was speaking at a plenary session on "Investment opportunities in capital markets" at the Apec Business Summit.

He was asked to comment on the possibility of having a regulated hedge fund market by one of the 1,000-odd participants.

The unregulated movements of short-term capital flows, under which hedge funds fall, have often been blamed by the affected Asian nations including Prime Minister Datuk Seri Dr Mahathir Mohamad as the root cause of the regional crisis.

Corzine, who in his speech earlier termed capital controls as dangerous, noted that there is a clear disproportion between the currencies of major economies and that of the the developing countries.

"(Therefore), the system needs to develop some countervailing mechanism to help support the currencies of the developing countries," he added.

The 130-year-old firm has a blue-chip board and powerful Washington connections.

It has presence in 20 countries with 20 per cent of its business in East Asia, and employs more than 11,000 people worldwide.

Corzine, who in his capacity as Goldman Sachs co-chairman and co-chief executive officer sat in a US Federal Reserve Bank-brokered consortium of bankers that bailed out the Long-Term Capital Management hedge fund, was also asked whether there was a possibility of the occurrence of another hedge fund debacle.

"(LTCM) is a unique, one-off problem. We feel reasonably secure that there is no (more) sniper out," he said in reference to a comment by US economist Paul Krugman last Friday that although the Feds succeeded in "dodging a bullet" in LTCM's case, the sniper could still be out there.

On a suggestion by one of the participants that there should be a new economic world order, Corzine said: "It is an evolutionary process. It is a necessary ingredient to move forward."

Another panellist Morgan Stanley Asia chairman John S. Wadsworth cautioned that, "while I agree that with the concept of a free market, it is important to think individually when it comes to finding a solution to

(a country's) economic development.

"To try and have a solution that is 'a one-size-fits-all' is wrong," he said.

Both panellists agreed that Asia, particularly those affected by the financial turmoil, is on the right track to recovery with a little help from a reformed international financial order.

Wadsworth said Morgan Stanley believed that Asia has bottomed out and the "systemic risk" has been taken out of the system.

Corzine said Asia is and will be an outstanding investment opportunity in years ahead.

Asian countries and most emerging market countries are doing a respectable job of promoting solid macro-economic policies now and given time and commitment, the region would remain prosperous in the decades to come, he added.

Corzine also said developing economies should continue and accelerate the adoption of international standards in accounting, bank supervision and corporate governance.

International institutions, meanwhile, he said, should refocus their main emphasis on crisis prevention rather than crisis response.

Multilateral institutions should better tailor their programme to address structural weaknesses and the challenges of developing countries.

"The emphasis should not be on a boiler-plate solution applicable to all countries but rather on the case-by-case philosophy, adapted to the circumstances of individual countries that worked so well in the debt crisis of the 1980s," he added.

The other two panellists were KAF Group of Companies chairman and managing director Datuk Khatijah Ahmad and Philippines Stock Exchange president and CEO Jose Yulo Jr.

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