

Specialty Session: Integrity and Corruption Issues Specific to Financial Regulators
February 25, 1999

Moderator: Eugene Ludwig, United States

Purpose:

The panel identified and suggested remedies for those areas of financial regulatory activity where regulators may be subject to attempts by financial institutions and others to bribe or intimidate the regulators in pursuit of specific regulatory and supervisory actions such as licensing and rulings.

Findings:

In introduction, Moderator Ludwig emphasized the structural and institutional harm created by individual acts of corruption by regulators. He stated that corruption is not merely an ethical issue, but also an issue with profound economic implications. He emphasized that while mechanism and safeguards must be created in regulatory body, a 'culture of integrity' must be developed.

Dr. Yoon noted that the problem of corruption in Korea is closely linked to the economic restructuring currently underway in the country and that free and open competition are the only ways to revitalize Korea's economy. Dr. Armendariz stated three priorities: (1) preventing undue exposure of financial regulators to corruption; (2) controlling and supervising financial regulators; (3) improving transparency re: the regulators' actions.

Professor Noble addressed the issue of cooperation between regulatory and enforcement officials. He emphasized the need for a limited number of clearly understood rules and regulations and the need for transparent enforcement outcomes and processes. Ms. Nouye discussed how to protect against use of the banking system for criminal or corrupt practices. Ms. Hannigan discussed the role of the Ethics Counsel at the SEC and explained the law and administrative procedures put in place to address not only public official impropriety, but appearances that would threaten public confidence.

Kenyan Foreign Minister Masakharia reviewed steps that Kenya is taking to address corruption and reform its financial sector, including: (1) full liberalization of the financial sector; (2) establishment of a Deposit Protection Fund; (3) improved management; (4) disclosures; (5) observation of ethical standards; (6) ethics of inspectors; and (7) legal capacity to ensure compliance.

Panel Participants: Danielle Nouye, France; Patricia Armandariz, Mexico; Barbara B. Hannigan, U.S.; Ronald Noble, U.S.; Won-Bae Yoon, Korea

**International Conference on
Fighting Corruption and Safeguarding Integrity Among Government Officials**

Panel Discussion of Integrity and Corruption Issues Specific to Financial Regulators

U.S. Treasury, February 25, 1999

While most financial regulatory and supervisory officials are exemplars of high integrity, regulators often are thrust into positions where unscrupulous banking or securities companies may seek special advantages in the form of licensing or rulings. Regulators may be subject to offers of bribes or intimidation by institutions that are experiencing financial difficulties and want the regulators to ignore or permit certain financial operations or positions that prudent supervision would preclude. The panel will seek to identify remedies for such problems, which may be especially evident in financial systems under significant stress and change and where financial institutions are weak and regulators lack sufficient training.

The Moderator, Eugene Ludwig, will make introductory remarks highlighting the main areas of concern, noting some of the most notorious recent cases of financial fraud and corruption and distinguishing between private sector malfeasance and the role of the regulatory officials. Also to be distinguished are active involvement in corruption, passive or inadequate supervisory action, and inadequate communication and cooperation with law enforcement bodies.

The panelists will discuss their experiences and those of their agencies to promote integrity among their officials and to prevent and to combat corruption. Dra. Patricia Armendariz of Mexico and Dr. Won-Bae Yoon of Korea will speak from the perspective of two advanced developing countries with relatively well established banking systems and securities markets. They will provide views of problems and solutions in different national regulatory settings.

Ms. Danielle Nouy of the Basle Committee on Banking Supervision will add an international perspective and explain what the committee is doing to encourage the adoption of best practices and techniques by banking regulatory authorities in many countries.

Ms. Barbara Hannigan will discuss the role of the Ethics Counsel at the U.S. Securities and Exchange Commission (SEC) and explain how the SEC seeks to ensure that its regulatory and enforcement officers are fully trained and prepared to function with the utmost integrity.

Mr. Ronald Noble will address the issue of cooperation between regulatory and enforcement officials. He will discuss the role of international groups such as the Financial Action Task Force and Interpol to combat official corruption originating with criminal elements engaged in money laundering and other illicit activities. The objective will be to identify and encourage the best ways for financial regulators to identify potential bribery and corruption and to cooperate with law enforcement bodies in the apprehension of culpable individuals and entities.