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Regional Council Of Regulators Agrees To Tighten Stock Exchange Rules In Latin America

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On June 4, following a two-day meeting in Argentina, the Inter-American Council of Securities Regulators (Consejo Interamericano de Autoridades Regulatorias de Valores) agreed to a series of new rules for trading on Latin American stock exchanges to enforce transparency and guard against manipulation by local brokers and investment advisers. The Council which includes the heads of regulatory commissions from 11 Latin American countries, plus the US and Canada was formed last year in response to rising investor interest in the region. The accelerated elimination of trade barriers throughout the Americas, combined with aggressive privatization programs in most countries, attracted unprecedented levels of foreign investment since 1990, especially from the US. Net capital flows into Latin America totalled US$57 billion last year ten times the level in 1989. The US Securities and Exchange Commission (SEC) reports that this year, holdings of Latin American stocks by US investors have risen to US$4.4 billion, up from US$2.6 billion in 1992. As a result, since 1990 Latin American stock exchanges have consistently topped the list of the world's best performing emerging markets (see Chronicle 01/07/93). The rapid growth in investment, however, led to greater demand for tight controls by securities regulators, since foreign investors fear that the newly forming markets are plagued by manipulation, insider trading, and other abuses. Among other things, SEC officials fear that many of the 50-odd investment advisers in Latin America who now recommend stocks for US investors may not be providing fair prices to their customers. According to some reports, many US investment advisers routinely fill orders for local customers first. In addition, brokers often buy stocks for their own accounts before buying for their foreign clients, pushing the prices up. "What we need is for the regulators here to make sure the services these investment advisers are giving are consistent with the law," said Michael Mann, head of SEC's international division. Added Mary Schapiro, SEC's acting chairperson who attended the conference in Buenos Aires: "I think these countries know that in order to continue their current rates of growth, they need to attract more and more capital from abroad, and one way to do that is to have efficient, transparent markets." Consequently, conference participants agreed to initiate close monitoring of brokers and investment advisers that work with foreign clients, while speeding up the dissemination of trading information to the public. Under the accord, regulators must assure that trade information on all transactions is posted on exchanges within 90 seconds of the trade, which increases confidence among investors that they are getting the most up-to-date price on stock. In the US, for example, most trades are reported within nine seconds. The participants also agreed to implement tough audit requirements for brokers in order to trace possible insider trading and manipulation, and regulators will closely follow the activities of clearing and settlement houses. While they recognize the new agreement as a step forward, participants caution that technical problems could limit the accord's impact. Most regulatory commissions are understaffed, more training in investigative and auditing techniques is needed, and more advanced computer systems must be installed in many countries. (Sources: Agence France- Presse, 05/15/93, 06/02/93; New York Times, 06/05/93, 06/11/93)