How Lagarde should be appointed at the IMF

MOHAMED EL-ERIAN, *for Reuters*

Eager to retain a historical but outmoded entitlement, European politicians seem to be coalescing around Christine Lagarde to replace Dominique Strauss-Kahn as Managing Director of the IMF. Lagarde has the qualifications to successfully lead a multilateral institution that is central to the well being of the global economy. Her ability to do so, however, may critically depend on how she is appointed.

Lagarde has considerable skills and expertise; she has gained important experience in both the private and public sectors; and, judging from her stint as France's Minister of Finance, she has navigated well the corridors of political power at the national and European levels.

Lagarde would be the first woman to lead a Bretton Woods institution. Such an overdue appointment would send an important message to an IMF demoralised by disturbing allegations of sexual assault by Strauss-Kahn. It would also come at a time when delicate questions are being raised as to whether the institution has historically been tolerant of inappropriate behaviour.

Yet Lagarde's appointment would be controversial, not because of her qualifications but because of the circumstances. Regrettably, her name has emerged in the context of a vocal desire by European politicians to extend a feudalistic tradition that is both outmoded and harmful -- that of having one of their nationals, and only their nationals, at the helm of the IMF.

This tradition is rightly opposed around the world. After all, merit rather than nationality should be the guiding principle for a critical multilateral post. And there are many non-Europeans that deserve very serious consideration, be they Africans, Asians, Latin Americans or North Americans.

It has not helped that European politicians have resorted to silly excuses to justify the appointment of yet another of their nationals. Consider the often-cited argument that this is needed because the IMF is heavily involved in resolving the region's peripheral debt crisis.

Such a view was never cited when the epicentre of the crises were in Asia or in Latin America; nor were they mentioned when the IMF stepped up its involvement in Africa. And rightly so. Indeed, it was viewed as a sign of strength that the head of the IMF was not from the part of the world in turmoil.

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Also remember that the post of managing director carries a five-year term. So, are European politicians telling us that the turmoil in their region will persist for that long? And can they assure us that no other part of the world will experience systemic dislocations during that time?

Citing the urgency of the appointment is also feeble. Yes, the IMF runs like an army and, as such, the loss of its general can be destabilising. Yes, the global economy is in the midst of major national and global realignments. But the IMF is also an institution with talented staff and deep institutional roots. Speed should not trump legitimacy when it comes to a new head.

The fact is that Europe is keen to maintain control. It is allowing an obsession with control and national prestige to dominate the spirit and requirements of multilateralism. Meanwhile, the US does not appear counter as it is in no rush to give up its historical entitlement to the number two position at the IMF (and also the presidency of the World Bank).

To the disappointment of many, it looks like yet another opportunity will be missed to establish an important element of legitimacy for the IMF. While highly unfortunate, all is not lost however. In this second best world, it would be in everyone's interest to find a way to reconcile Lagarde's qualifications for the job with the unfortunate context for her potential appointment. And there is a way.

Instead of a new five-year term, Lagarde should be appointed just to complete Strauss-Kahn's term that runs until 2012. During this period, Lagarde would be charged to lead the IMF's Executive Board to put in place a selection process that is open to all nationalities, transparent and merit-based -- or the minimum standard of governance for an institution that is owned by 187 member countries and charged to serve them under the principle of "uniformity of treatment."

Of course, come next year, Lagarde would be eligible to stand for a full term in an election that is open to all; and one that is based on merit rather than misplaced notions of national prestige and harmful political horse-trading. If my assessment of her qualifications is correct, she would be well placed to secure the necessary global support under a process that is credible and long, long overdue.

Mohamed El-Erian is CEO of PIMCO. He spent 15 years at the IMF (1983-2007) and his name was mentioned in connection with potential candidates to replace Mr Strauss Kahn. On Tuesday, he indicated that he has no interest in pursuing the post. The opinions expressed are his own.

Guard markets against abuse

RASHAD HAQUE

Continued from Friday

A separate regulatory body, Financial Regulatory Authority, is necessary to bring exchanges and financial institutions under a new regulatory framework for a medium term. Its necessity is felt in the light of regulators' failure to monitor the banks' exposure to the capital market throughout much of 2009 and 2010, which contributed to the sorry state of affairs that we are in.

The exchange and the various banks and brokerage houses were great beneficiary of the recent boom in the markets and they need to share more responsibilities as stakeholders. Many banks and financial institutions made hefty profit both as direct market investors and making commission of retail investors through their brokerage houses. However, they cannot absolve themselves of their responsibility for many of manipulations case presented in the market probe report. Many of the manipulations happened through trading accounts within their brokerage houses. Though they might not have known what was happening, as intermediaries in the marketplace it was certainly their responsibility to know their customers and their dealings. Collecting through detail on each customer to "Know Your Customer (KYC)" to ensure there is no potential conflict of interest in their trading is clearly a responsibility of the brokerages houses. Failure to do so must have an adverse consequence. Additionally, the brokerage houses themselves should take greater responsibility for educating the retail investors as they are the direct intermediary between the market and investors.

As a starting point, the FRA should:

1. Regulate the business of the stock exchanges or any other securities markets

2. Register and regulate the business of stock-brokers, sub-brokers, share transfer agents, merchant bankers and managers of issues, trustee of trust deeds, registrar of an issue, underwriters, portfolio managers, investment advisers and other intermediaries in the securities market

3. Register, monitor and regulate collective investment scheme including all forms of mutual funds

4. Monitor and regulate all authorised self-regulatory organisations in the securities market

5. Regulate IPO and private placement activities to ensure fairness and transparency in the process

6. Mandate minimum investors education courses to all existing and new investors to the market by the brokerage houses and investors sign off confirmation to ensure investors understand risk associated with investments and margin loans

7. Perform periodic review of brokerage transactions to check for anomalies

The FRA can also serve as a buffer between SEC and the central bank. As shown by the central bank's inability to provide sufficiently monitoring investment activities of banks, BB clearly lacks the manpower to do it properly. Additionally, putting the onus on the central bank to monitor the activities of financial institutions in capital markets can distract it from its main goal of setting monetary policies. But a close watch on financial institutions' exposure to the stockmarket is a must for the central bank, and monthly data collected by the FRA can guide future oversight to mitigate any untoward incident.

I believe some of the recent abuses by individuals and financial services organisations in Bangladesh -- such as artificial swelling of stock prices -- can be tackled with proper oversight from an organisation such as the FRA. If Bangladesh's capital market is to prosper, proper regulatory oversight of the financial institutions is a must to ensure fairness. One should be conscious however that in order to make the self-regulatory organisation effective, there must be a clear distinction and coordination with other regulatory bodies such as the SEC and the central bank. Also, however well-thought-out a framework may be, it is nothing without competent and sincere leadership and workforce to make it effective. The framework recommended is no exception.

INVESTOR RIGHTS AND JUDICIARY

While SEC itself remains institutionally inept and also inconsistent and often arbitrary in its policymaking, there is also a lack of recourse for investors to pursue their case of any exploitation through the current legal system since the judiciary is backlogged with years' worth of cases to be considered. And even if a gripping investor is lucky enough to have his day in court then the fellow would have to contend with undue influence from outside from ruling party members or other influential people. Though these cases are pretty much nonexistent, it is more likely that the defendants in these cases are always individuals or companies with powerful connections.

Institutional weakness is one of the main reasons foreign investors are hesitant to put their money into Bangladesh bourses. One cannot blame the private investors for such hesitation, since Bangladesh has the dubious distinction of consistently being labelled as one of the most corrupt countries in the world. So for the immediate future Dhaka Stock Exchange will stay a mostly local affair, unlike the exchanges in our neighbouring country. India, Sri Lanka, and even Pakistan to some extent continue to greatly benefit from foreign investments in their capital markets. If the government is serious about protecting investors and developing the capital market then an avenue for investors to protect their interest outside of SEC oversight is a must. A serious display of commitment can be shown in the form of perhaps a separate court that deals with corporate and securities litigation so cases can be disposed of in a timely manner.

Despite all the prevailing gloom and doom, I hope market regulators and stakeholders will take the necessary steps to protect the market from any untoward situation. It benefits nobody when confidence in the market mechanism is destroyed, while ensuring confidence and fairness will benefit everyone when a prospering market will be seen as an investment destination by foreign investors. However, corrections along the way are inevitable as market prices will adjust to reflect its true value from time to time.

Bangladesh is counted among the next frontier markets in Goldman Sachs Next 11 countries that can potentially rival the BRICS (Brazil, Russia, India, China, and South Africa) in economic growth. Bangladesh is also part of JP Morgan Chase's frontier five market countries. Those are great recognitions and a vote of confidence from two of the most distinguished investment banks that together manage over a trillion dollars of assets. That's more than ten times the GDP of Bangladesh. I am confident the prospects of them investing some of the trillion dollars in Bangladesh are not very far away as the market becomes more mature and market cap increases. We must work hard to sustain that confidence by taking all necessary steps along the way to ensure that when the time is right, foreign investors will look at our market as one of the main destinations where they can invest their money.

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STAR

Analysts say Bangladesh Bank as a regulator must monitor banks' exposure to the stockmarket.