

## General Meeting of CITCO Group 2005

***Address by Dr. E.D. Tromp, President, Bank v/d Nederlandse Antillen on the occasion of the opening of the "2005 GENERAL MEETING OF CITCO GROUP", 2005***

Ladies and gentlemen,

On behalf of the Central Bank of the Netherlands Antilles I welcome each of you to our beautiful island by extending to you a warm "Bon Bini". I am particularly pleased to welcome those visiting Curaçao for the first time, the island where the Citco organization originated. On a personal note, I would like to thank the Citco Group for the invitation extended to me to address a group of individuals who, I believe, collectively agree on the critical need to continuously improve our business practices and promote a business culture that fosters high standards of governance and integrity.

In a world characterized by dramatic changes, developments, and innovations, businesses should constantly strive to remain abreast of developments in the industry and discover ways to undertake their responsibilities more efficiently and effectively. Our Bank applauds the efforts of the Citco Group to continuously provide a venue for its staff members from across jurisdictions to come together to discuss plans and strategies for the future and share ideas and experiences to further enhance its business practices.

The timing of this conference, is needless to say, very crucial. We are meeting at a time when the eyes of the world are focused more than ever on the international financial centers and service providers. International organizations, standard-setting bodies, policymakers, legislators, and international media alike are intensively observing the activities of institutions operating in the international financial centers and service providers. The risks, particularly the reputational risks, that our various financial centers are exposed to, should make us realize our mutual dependence. Therefore, as institutions operating within these jurisdictions, we should at all times promote a regime that promotes market integrity, effective risk management, and sound governance. In doing so, we help promote the confidence of particularly the international public in our various jurisdictions and the international financial centers as a whole.

Today more than ever it seems, that our domestic macroeconomic performance and policies are being dramatically affected by global developments. Financial markets around the world felt the effect of the latest tragedies and financial scandals, which further emphasizes our interrelationship and mutual dependence. These tragedies and financial scandals have affected our domestic financial markets such that institutions can no longer "think and act locally," but rather should "think and act globally." Furthermore, competition in the financial sector has become so intense that only the institutions able to predict and monitor changes in the financial industry will be able to obtain or maintain a competitive position in the industry.

The beginning of the 21st century witnessed remarkable advances in financial engineering and innovation, which makes these times particularly interesting and challenging for institutions within the financial sector. The pace of innovation is expected to accelerate further in the years to come as financial markets increasingly integrate the use of new technologies into the world economy. These advances have resulted in an increased number of complex financial institutions and financial service companies. Of course there are uncertainties and risks surrounding these advances that will require careful monitoring and management by financial institutions and service providers. These institutions should have a comprehensive risk measurement approach accompanied by a strong management information system for controlling, monitoring, and reporting the risks.

The financial and technological advances I alluded to also pose significant challenges to the financial institutions and service providers, as they work to appropriately calibrate their business activities to the challenges of the innovations in their operations. These institutions must implement policies and practices that conform to the scope and complexity of their activities.

Our Bank has always been very active in promoting financial stability and minimizing systemic risk through sound and prudential supervision, which also has contributed to the importance of the Netherlands Antilles as an international financial center in the region. With the supervision of credit institutions, insurance companies, pension funds, collective investment schemes, administrators, and trust service providers entrusted to it, our Bank is constantly striving for ways to strengthen the Netherlands Antillean financial sector by enhancing the quality of our supervision in an effort to promote sound macroeconomic developments. Accordingly, we promote high standards of integrity, competency, governance, and business conduct among all our supervised institutions. Our Bank believes that good regulation commands a premium and preserves reputation and stability. We also believe that prudential oversight must be complimented by enhanced corporate disclosure and market discipline.

The Netherlands Antillean government plays an active role in our financial sector. In coordination with the private sector and our Bank the government continues its efforts, to maintain and enhance the status of the Netherlands Antilles as an international financial center. These efforts are concentrated on reforming the fiscal and legal infrastructure of the financial industry in an effort to adapt to the constantly changing environment in which we live. Therefore, the government, in cooperation with organizations in the international financial sector, is continually striving to introduce legislation and regulatory regimes to enhance its ability to attract quality business and enable the country to maintain its reputation of pursuing high standards and integrity. Legislation to this end is the so-called "New Fiscal Framework" that was enacted a few years ago. This framework entails an upgrade and modernization of the tax legislation of the Netherlands Antilles in line with the OECD guidelines. Under this framework the average profit tax rate has been reduced, profits of nonresidents and foreign permanent establishments are 95 % tax exempt, and a dividend withholding tax on profit distributions has been introduced. Our Civil Code also was revised last year in line with international standards, such as standards related to good governance. The latter revision also reflects the government's commitment to safeguard and strengthen the position of the Netherlands Antilles as an important international financial services jurisdiction.

I would be remiss if I did not commend this morning the way the Citco Group has expanded its operation from this island and become one of the major players in the financial services sector worldwide.

Not only do I greatly commend Citco's growth but also its commitment to continuously promote a framework of high standards and integrity around the world. As Citco expands, thereby increasing its market share worldwide, I am sure that you would agree with me that the challenges that Citco faces have become more, but not unmanageable.

When I refer to challenges, I refer to challenges in all areas of Citco's operation. In the banking area, we can think of the money laundering and terrorist financing issues and challenges that international banks, such as Citco Banking, are faced with. Nonetheless, considering the risks, particularly reputational risk, that money launderers and terrorists pose to a global institution like Citco, it is imperative that Citco continue to take corrective measures to deter and detect the use of its facilities for money laundering and the financing of activities.

The rapid growth and increasing importance of electronic banking also has become of growing concern to financial institutions and service providers. As technologies for processing, analyzing, and transmitting vast quantities of data continue to develop consumer and banking practices are changing, in some cases dramatically. Traditional constraints on the timing and location of economic transactions are being eased rapidly in many markets. Through the use of the Internet and automated business systems, many markets can now be open twenty-four hours a day at very low marginal costs. Transactions can take place at much more convenient times tailored to the specific needs of individuals and banks. As factors such as timing and location are changing, significant efforts should be made to strengthen confidence in electronic transactions by enforcing the laws governing electronic transactions, by deploying encryption systems, and by ensuring privacy as an important commercial and legal issue.

In this environment, banks should continuously assess and monitor the impact of new technologies and innovations on their operations and adapt to developments in the market. Of course, promising innovations bring with them uncertainties and risks as well as intense market competition. These uncertainties and risks will require careful monitoring and management.

Banks also face challenges relative to their interactions with Highly Leveraged Institutions. After the events in 1998 involving Long-Term Capital (LTC) Management, various initiatives were undertaken by the international supervisory community to address the issues that led to the problems surrounding LTC. The Basel Committee on Banking Supervision issued a report on banks' interactions with Highly Leveraged Institutions in January 1999. This report evaluated the quality of banks' risk management practices involving Highly Leveraged Institutions and the related supervisory and regulatory issues. The Basel Committee also published guidance on sound practices relating to banks' interactions with Highly Leveraged Institutions.

The International Organization of Securities Commission (IOSCO) in its on-going efforts to address securities supervisory issues, has been active in drawing from the collective supervisory experience of its members and other supervisory authorities in issuing supervisory guidance to address the challenges that securities firms face. An example of such a supervisory guidance is the consultative document published by the Technical Committee of IOSCO addressing the elements of International Regulatory Standards on Fees and Expenses of Investment Funds. The Technical Committee of IOSCO also produced a report on securities firms' interactions with Highly Leveraged Institutions in November 1999. The nature of these interactions, the risks, and the recommendations for sound practices in mitigating these risks were very similar to those identified for banks.

The U.S. Securities and Exchange Commission (U.S. SEC) adopted a rule last year requiring mutual funds and their advisers to adopt policies and procedures reasonably designed to prevent securities law violations, including late

trading, abusive market timing, and selective portfolio disclosure. These programs and procedures are designed to assist mutual funds in their decision-making and monitoring rules.

Trust and company service providers also are increasingly facing challenges with respect to compliance with internationally due diligence standards. Furthermore, an ever more common requirement is that the trust and company service providers not only know the structures of their clients' businesses for KYC purposes, but also the ultimate beneficial owners behind the structures.

As financial service companies are attempting to narrow the gap between their existing policies and practices and the necessary update required to keep pace with the global developments in the industry, I am sure you would agree with me that the tasks of financial institutions and service providers have only become more challenging. The size and complexity of the challenges always seem to grow at a faster rate than the resources assigned to them. Nonetheless, financial institutions and service providers should implement policies and practices that conform to the scope and complexity of their institution. To do so financial institutions and service providers must have the right information to make the right choices in assessing the threats and challenges their respective organizations face and to keep abreast of the developments that are taking and will take place in the market. In so doing we will contribute both to meeting our respective domestic objectives and to strengthening the global economy at a time of significant changes.

## **Conclusion**

To conclude, I would like to say that recent developments in the international financial sector imply that more than ever, financial service companies should promote sound and prudent business practices that constantly anticipate and adapt to changes in the financial industry. Even though the financial services industry is continuously evolving, which in turn poses significant challenges to financial institutions and service providers around the globe, these institutions should strive to promote a framework that further contributes to the soundness and stability of the financial system a framework that emphasizes sound corporate governance, effective risk management, and a market discipline that encourages transparencies. While the external environment is not within the control of a financial institution or a financial service provider, the strategic policies are. I believe that the selection and effective application of the right policies will enable financial institutions and service providers to capitalize on the opportunities and help them to overcome obstacles arising from size and resource constraints.

Therefore, I hope that this meeting will shed further light on these challenging issues faced by your institution. I wish you a fruitful meeting and hope you have a pleasant stay on our island.