*Foreign Exchange Market & Cross-border Transactions: Some Random Reflections**

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Shri C. Venkat Nageshwar, Chairman, Foreign Exchange Dealers Association of India (FEDAI), Shri Ravi Sinha, Acting Consul General of India in Hong Kong, Shri D. G. Patwardhan, outgoing CEO of FEDAI, Shri Ashwani Sindhwani, incoming CEO of FEDAI, distinguished speakers and panellists and delegates to the Conference. It is a great pleasure to be here today in this modern city of Hong Kong which Wikipedia describes as *world's most competitive economy, the world's most visited city, and among the world's most significant financial centres with a very high financial development index.* My sincere thanks to the FEDAI for inviting me to inaugurate their 11th Annual Convention. These Annual events of FEDAI have been quite well known in recent times for the wide participation of the foreign exchange market participants, for the depth and detail of the deliberations, and of course, for the idyllic locations chosen. I am sure that this Convention too would excel its predecessors in all aspects.

2. FEDAI was formed in 1958, when Foreign Exchange Regulation Act, 1947 was in force and life was rather simple. The Bretton-Woods arrangement was in force, there was a fixed exchange rate regime with Rupee pegged to the pound sterling and tranquillity reigned in the markets, such as there were. Mandate of FEDAI was simple too: setting the basic rules for inter-bank and customer transactions pertaining to computation of rates and settlements. Forex market and FEDAI have traversed a long way since then in keeping with the momentous changes that have taken place in financial markets in general and forex market in particular, globally as well as in India. Though not formally designated as a Self-Regulatory Organisation (SRO), it has effectively played such a role and the smooth transition and transformation experienced by the Indian foreign exchange market over the years can be ascribed to FEDAI in no small measure. I am sure FEDAI will continue to play such a role in future with greater élan.

3. In modern times, the economic and market conditions have been evolving rapidly and whenever we find ourselves in the cusp of transformational events, there is a global dimension involved. Today, the Indian economy is reported to be more integrated with the rest of the world than US and China in the sense that trade-GDP ratio for India (at 49.6 per cent) is higher than that for China (41.2 per cent) and US (30 per cent). If we also look at a wider parameter of Global Connectedness Index developed by Pankaj Ghemawat and Steven A. Altman, India's score and rank is pretty high, *e.g.*, in 2013 our rank at 71 was ahead of China at 84 in a universe of 140 countries. The quest for mobilising resources for India's vast investment needs also has a pronounced outward-looking refrain. As we engage more and more with the rest of the world, the cross border transactions not only increase in magnitude but also become more complex. Even as we grapple with issues, such as, how to improve the ease of doing business to attract foreign investment and how to contain the potential instability due to increased cross border engagements, the critical factor that influences our thinking and policy setting is the conditions in the foreign exchange market. In this backdrop, I shall discuss today a few select themes

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relating to 'foreign exchange market and cross border transactions,' keeping in view the broad topics of this conference, allowing freedom in foreign exchange markets and internationalisation of Indian Rupee.

Foreign Exchange Market: Freedom with Stability

4. The modern foreign exchange market as we know it evolved after the Bretton Woods system broke down in early 1970's and the global currencies became freely floating. It may be recalled that in the Bretton Woods regime the currencies were almost fixed *vis-a-vis* US dollar and the exchange rate carried within a narrow band. US dollar in turn was linked to gold with a guarantee of the US monetary authorities. When the US Government withdrew this guarantee on August 15, 1971 the currency market went into turmoil and a floating rate regime came into existence. Floating rate regimes were experienced earlier for example, during the 30's when the markets were volatile and disorderly in the extreme and were shut down for extended periods. It may be of some passing interest to note that Reserve Bank of India Act,1934 was framed during this period and the preamble said '*….And whereas in the present disorganisation of the monetary systems of the world it is not possible to determine what will be suitable as a permanent basis for the Indian monetary system….*'

5. The floating exchange rate regime that came into existence in early 70's has remained in force for four and half decades. It is not that there has not been occasions of disorderliness and turbulence in the market but the regime has not been over turned.

6. Three interrelated factors have contributed to the evolution of foreign exchange market as we see it now. First, there has been tremendous improvement in global communication infrastructure gone are the days when trading and settlement used to be done over telegraphic systems (hence the term cable rate). The modern communication network has reached the time and space gap and the only limitation now is the diurnal motion of the earth. Secondly, this period also coincided with quantum advancement in computing capacity. This has helped in improving the communication network. But more importantly it has made trading and settlement quite easier. It is possible for the trader as well as the back office to instantaneously understand the implication of a trade. The ultimate culmination of this is of course 'algorithm trading'. Thirdly, along with the development in computation, sophisticated mathematical models have evolved to engineer complex and bespoke financial products. A combination of these three factors has brought about a foreign exchange market that is truly global, liquid and large.

7. Notwithstanding the complexity and sophistication of the foreign exchange market, the fundamental principle remains simple yet profound. The foreign exchange market deals with currencies and a foreign currency is but a commodity vis-a-vis the domestic currency. The price is the exchange rate. Any price has two determinants. The supply factor and the demand factor. The first can be seen to be derived from the cost of production and the second from the factors that affect demand, utility for instance. In the foreign exchange market, the first factor which ultimately determines the exchange rate in the long run is the purchasing power parity or the inflation differential. The second factor that causes exchange rate movement in the short run is the expected earnings from exchange rate dynamics. In the simplest of cases it is derived from interest rate differential but in the real world the exchange rate demonstrates random walk and behaves like any other financial asset. It will be important here to remember that both the factors play equally important role in determination of the price. To quote Alfred Marshall, '*We might as reasonably dispute whether it is the upper or the lower blade of a pair of*

scissors that cuts a piece of paper, as whether value is governed by utility or cost of production. It is true that when one blade is held still, and the cutting is effected by moving the other, we may say with careless brevity that the cutting is done by the second; but the statement is not strictly accurate, and is to be excused only so long as it claims to be merely a popular and not a strictly scientific account of what happens (Marshall [1890] 1997, 290).'

8. The exchange rate is a key macro-economic variable. It shapes a country's balance of payments and engagement with the rest of the world. It affects a country's export competiveness, of course in conjunction with other factors and its income and employment to the extent that export sector is important for the economy. It determines the cost of import and to the extent that import constitutes articles essential for investment and growth, can act as a retarding factor. It affects the price level through the linkages provided by the tradeable sector.

9. As we have seen earlier foreign currency behaves like a financial asset. The prices of all financial assets are forward looking and are based on the expectation of the future state of the world. As such a country can face large capital inflows or outflows depending on whether its future is perceived to be promising or discouraging. This in turn can affect the exchange rate which may not be in consonance with the fundamentals of the real economy for example the appreciation of the Rupee in 2007-08 was caused by large capital inflows attracted by a buoyant and promising economy but affected the export sector adversely. The reverse was perhaps the case in the East Asian crisis. The capital flows also pose challenge for the monetary policy setting. I allude to the much discussed Mundell-Fleming trilemma, *i.e.*, it is impossible to have an open capital account, independent monetary policy and fixed exchange rate. Capital account openness and independent monetary policy framework could lead to flexible exchange rate which can be disorderly and volatile.

10. The reason I am discussing these issues in some detail is to emphasise the criticality of the exchange rate. The importance of exchange rate cannot be over emphasised for developing countries. For instance, it has got special importance for India like unemployment for Americans and inflation for Germans. The memory of the 60's and 70's when the critical shortage of foreign exchange reserves forced us to resort to the PL 480 for meeting the food requirement of the country are pretty strong. Exchange rate movement either way can affect us adversely. Appreciation could hurt our exports and depreciation would make the imports expensive. Given that our large part of imports comprises crude, fertiliser, capital goods and intermediates, increase in the cost of imports due to depreciation of currency can hurt our growth and employment and affect the fiscal balance.

11. In this backdrop, there are two questions that need to be posed. First, how to ensure that the exchange rate remains stable and, as is stated in the preamble to FEMA, 1999, how to preserve orderliness in the foreign exchange market? Second, the exchange rate will be stable and not fixed, and therefore, there will be some volatility in the foreign exchange market. Therefore, how to enable those affected by the exchange rate to cope with the risk inherent in a volatile market?

12. I will deal with the second problem first. As long as the inflation differential between India and the other countries remain positive, the Indian currency will exhibit depreciation over the long term. However, in a world dominated by capital flows, there can be significant deviations from the long-term path indicated by the Real Effective Exchange Rate (REER). REER itself, one should note, is a function of several dynamic

factors and variables and hence, may not serve as very accurate anchor as the base period loses its relevance in the face of more recent developments. Even in the case of US dollar, the deviation from the long term represented by the REER is known to have been of the order of 80 per cent. Such volatility affects the earnings and balance sheet of all firms that have contracted or even economic exposures. The approach to resolve this problem is to provide a deep and liquid foreign exchange derivatives market to enable market participants to hedge their foreign exchange risk. I have spoken about the derivatives market in detail elsewhere and do not wish to deal with it in detail here.[1] The most straightforward derivatives are the forward contracts or their exchange traded counterpart, the currency futures where the payoffs are simple and linear. While the pricing of these derivatives are fairly simple based on the interest rate differentials, the use of these products by the market participants is mostly motivated by their expectations of the future spot rate. Ordinarily, if you have a foreign exchange receivable or payable and if you have entered into a forward sale or buy contract, your exposure is evened out and you should not be bothered about what happens to the exchange rate. However, the concept of mark-to-market is not only in the books of accounts but also in the people's minds. Not unexpectedly, a cloth manufacturer and exporter decides her hedging strategy based on her own view of the expected future spot price as different from the forward price and of course often based on advice of 'experts'. As I have mentioned earlier, the foreign exchange rate exhibits random walk in the short run and the best prediction of tomorrow's rate is today's rate. About 'expert' advices, I can only paraphrase Samuelson's famous words, *'To prove that Wall Street is an early omen of movements still to come in GNP, commentators quote economic studies alleging that market downturns predicted four out of the last five recessions. That is an understatement. Wall Street indexes predicted nine out of the last five recessions! And its mistakes were beauties.'*[2] Now, after havingbooked a forward contract, one tracks the path of the spot rate and starts revelling or repenting about the imagined gains or losses!

13. The other way of hedging risk is by using non-linear derivative options. Once non-linearity is brought into hedging strategy, the universe becomes virtually unlimited. Any combination of linear derivatives will still have linear payoffs. But combination of non-linear derivatives with themselves or with linear derivatives can result in payoffs of varying complexity. Such complex products along with a future that is shrouded in ignorance can have pretty unpleasant outcomes and sometimes even threaten market stability.

14. In this backdrop we have adopted a gradualist approach in respect of regulation and expansion of forex derivatives market, keeping in view certain uncertainties we have witnessed in the global and local level macro-economic environment. On the one hand, we are committed to enable any entity, whether resident or non-resident, with an exposure to the exchange rate of Rupee to hedge it using onshore derivatives and on the other, we have been circumspect about introducing new products, such as, complex options including the so-called exotics for reasons no other than the misuse of the products, either not matching with one's risk or even for buying risk with a speculative strategy. As I see it, the universe of permitted derivatives will expand and even undertaking a derivative transaction will become simpler. All this,

[1] 'Indian Derivatives Markets – Striking a Balance between Risk Protection and Liquidity' address by Shri Harun R. Khan, Deputy Governor of the Reserve Bank of India, at the Finance Conclave 2015 organised by the SP Jain Institute of Management & Research, Mumbai, 17 January 2015.

[2] Science and Stocks, Newsweek, September 1966

however, depends on how stable the currency markets remain and how responsibly the market participants behave. I hardly need to stress that in all financial transactions in general and derivative transactions in particular, the principle *caveat venditor* applies just as strongly as the principle *caveat emptor.*

Regulating Cross-Border Transactions: Responsibility & Responsiveness

15. Now I come to the first question I had posed earlier, that is, how to ensure stability of the exchange rate. The obvious response that springs to one's mind is intervention by the central bank. Intervention, however, is to be used only in extreme situations and cannot be a part of the policy framework. Intervention has got costs and other implications like negative carry of the foreign exchange reserves, interference with the monetary policy framework, cost of sterilization of intervention operations, *etc.*, depending upon whether intervention consist of buying or selling foreign exchange. The strategy, therefore, seems to be a combination of some capital controls and flexible exchange rate. Earlier this year, the Bank of Japan Governor Kuroda was reported to have advised China to '*impose capital controls to defend the yuan rather than keep burning through currency reserves'* [3]. The role of capital controls, rather active capital account management, in preserving stability in the external sector and foreign exchange market has now been well recognised in the aftermath of the global financial crisis. Some studies have shown that capital controls measures for capital account management are desirable in certain circumstances even when the exchange rate is flexible. Here, I can cite the examples of how we have been calibrating the outflows permitted under the Liberalised Remittance Scheme (LRS) and the inflows under the External Commercial Borrowings (ECB) framework in the Indian context.

16. During the FERA regime, there was complete exchange control. Not only capital account, even current account transactions were also subject to control measures. During the acute foreign exchange crisis, the capital accounts were opened up slightly for the expatriate non-resident Indians by way of incentivised accounts, access to the secondary market in equities, *etc.* Since the liberalisation process started in the early 1990s, the capital account has been progressively liberalised. We were courageous enough to think of full capital account convertibility on two occasions – in 1997 and in 2007. Unfortunately, because of unfolding of global macro-economic developments, the implementation of the path to full capital account convertibility remained on the drawing board stage. Our commitment to progressive liberalisation of the capital account has of course remained steadfast through the problems ranging from the post-Pokhran II global reactions to the recent global financial crisis.

17. What has been our approach to management of capital account? One way of looking at the issue is to see how it affects three different segments of the economy – the non-financial firms and businesses, the individuals and the financial firms. As far as the first segment is concerned, a more open capital account provides better access to resources and investible funds, brings in better technology and management practices and improves their valuation. Right since the first days of opening up of capital account, the emphasis has been to ensure that the real sector is not deprived of the benefits of an open capital account. We can say that, in effect, the capital account is fully open for most of the real business sector. The restrictions are in respect of individuals and the financial sector. In a resource starved country, enabling individuals, particularly those

[3] Bloomberg – January 23, 2016

with high net-worth, to transfer their wealth to foreign places is surely a low priority policy objective. As far as the financial sector is concerned, the restrictions stem from the premise that it is this segment which creates systemic vulnerabilities in an open economy.

18. There is another way of classifying capital flows, *viz.,* by the asset class – equity, debt and immovable property. The distinction between equity and debt is too well known. The two financial contracts have their own structures and implications. From the limited perspective of external sector stability, suffice it to say that while a capital inflow in the nature of equity poses little stability issues (except in socially or economically sensitive sectors where foreign ownership may not be considered appropriate) debt contracts can lead to build up of significant risks at the firm and more importantly at the systemic level. History stands witness to this proposition. Whether it is Latin America or East Asian countries or Greece in recent times, financial and economic stability were rooted in borrowing a foreign currency or in a currency over which the country had no control.

19. The regime for foreign debt is dictated by the concern for excessive indebtedness in foreign currency which can sow the seeds of instability. Take the example of the ECB the regime as is in force today. The prudential focus of the current ECB framework is to provide a nudge towards long term borrowing to mitigate rollover risk and/or borrowing in Rupees so that currency risk is not borne by the borrowers, discouraging borrowing by those who do not have any natural hedge by way of foreign currency earnings or earnings linked to the exchange rate, all-in-cost-ceiling to prevent poor quality borrowers from accessing risky foreign currency loans and encouraging borrowings from long-term lenders/investors like sovereign wealth funds, insurance companies and pension funds.

20. Here, I would like to mention two inter-related issues in the passing. Often, we hear mention of foreign currency borrowings as a source of cheap funds. Is it really cheap? In a perfect market with no capital account restrictions there should not be any opportunity for arbitrage between a fully hedged foreign currency borrowing and a Rupee borrowing on the one hand and when the borrowing is long-term with coupons and repayments spread over the lifetime of the borrowing and between the cost of hedging and the long term average rate of depreciation on the other. Thus, as far as the cash flows are concerned, it would not matter whether an Indian firm avails of foreign currency borrowing or Rupee borrowing. The arbitrage opportunities that exist are due to market imperfections and barrier to arbitrage. But whether foreign currency borrowing is truly cheaper requires deeper study with long-term data. The second issue relates to whether foreign currency borrowings should be hedged? It is intuitive to expect that those whose revenues are neither in foreign currency nor are indexed to the exchange rate should not leave the currency mismatch unhedged. Although it may be argued that the cost of hedging is often more than the rate of long term depreciation of the Rupee, it is worth asking the question whether one can trust one's instinct to remain unhedged hoping and betting that one would be able to ride on the best part of the exchange rate cycle or protect oneself against possible adversities in line with a prudential risk management framework. This choice has to be very carefully evaluated.

21. Coming back to the issue of other asset class of equity, it needs to be noted that the regime for foreign investment in equity is pretty permissive – be it as foreign direct investment or foreign portfolio investment. As far as I can see, the only two high level restrictions: (i) in a few sectors where the extent of

foreign investment is capped due to their sensitive nature and, (ii) in the stipulation that the issue or transfer of securities should be at fair value. But as always, the devil often is in the detail. Obviously, the investment should be in equity securities. Some leeway is provided through hybrid securities – fully and compulsorily convertible preference shares and debentures. The other hybrid securities such as partially convertible debentures, optionally convertible debentures or equities with embedded optionality are not treated at par with equities and hence not permitted as instruments for making foreign direct investment.

22. Most of the details of the structures in the foreign direct investment regime comes from the concern to allay the appreciation that a FDI should not be used as a camouflage for debt. But how complex does the structure become! In a manner of speaking, every investment is an act of speculation. Every investor must have an expectation about future state of affairs and the cash flows or return that will accrue to him. Every act of investment is subject to the usual information asymmetry. Therefore, every investment contract must provide for the probable states of affairs and how the investor will protect himself against the uncertainties and the information problems. Straitjacketing investment contracts, thus, often results in disputes, or worse, much needed investment shying away from socially useful sectors. Here I would like to refer to cases where hybrid instruments (*e.g.*, optionally convertible preference shares) are issued with the option to exit linked to pre-determined milestones. This becomes imperative as investment strategy of many investors (*e.g.*, Private Equities) is often different and there is need for a reasonable exit option under certain circumstances without any assured return.

23. This problem is aggravated by the way the FEMA is structured. Unlike in case of current account transactions, where the principle is that everything that is not specifically forbidden is allowed, in case of capital account transactions the principle is that only anything that is not allowed is forbidden. This makes a great demand on the framers of regulations, lest the investment and business is subject to the limitations of their perceptions. The way business is done is forever evolving and it is a difficult job for the regulators to keep pace with it. There is a very good case for relooking at this principle and align the regulatory approaches for current and capital account transactions. Even as we liberalise capital account more and more, the universe of restrictions shrinks and the regulatory structure will be simpler if it mentions what is prohibited rather than what is allowed.

24. As we move to more liberalisation and rationalisation of regulations, there have been some unsettling developments in the recent past. Advance remittance for imports without any corresponding imports into India, receipt of advances for exports without exports materialising for a long time and more recently the revelations of the so called 'Panama Papers'. In case of Panama Papers, on the basis of reports, it is suspected that some Indian individuals may have been involved in setting up of businesses maintaining balances abroad illegally. Investigations are on and the situation can be assessed only on conclusion of the process when full details are available. The question that troubles us is should the unfolding of these events influence our approach to regulating cross-border transactions?

25. On this subject I cannot help recalling what the Finance Minister Yashwant Sinha said in the Lok Sabha on November 19, 1999 while replying to a debate on

the Foreign Exchange Management Bill. I quote *'What we are trying to do through this legislation is to bring the entire management of foreign exchange in line with the changes which have taken place as a result of liberalisation on current account. I strongly refute with all the emphasis at my command that this piece of legislation is going to help the blackmarketeers, the black money operators or the hawala operators. This is a figment of the imagination of a section of the Members of this House and I refute it as I said with all the emphasis at my command. This is in terms of meeting a new situation which has come about as a result of liberalisation of the foreign exchange management and the Act will only facilitate that management. That is the reason why we are introducing this legislation. We have already introduced the Prevention of Money Laundering Bill. The two legislations, I will suggest, should be considered together because they cover the entire gamut of the issues that are involved in these two pieces of legislation.'*

26. Often what comes across as contraventions of FEMA indeed are issues related to tax evasion or money laundering. I wonder if it would not be more appropriate to deal with these wrongs within the framework of tax and money laundering laws. It is nobody's case that these wrong doers should go unpunished; indeed the punishment should be swift and exemplary. What I am emphasising is that this should not colour our perception in respect of cross border transactions and mould our regulatory approach in a regressive fall back to the FERA mindset. After all, countries with no foreign exchange laws do have such wrongs and do effectively deal with them. There is a case for avoiding any possible attempts for regression into FERA regime. This will of course be helped by Authorised Dealers in foreign exchange collecting, collating and sharing the information so as to ensure that the regulatory intent is not compromised in letter and spirit.

27. Just a word in passing on the internationalisation of the Rupee in recognition of the fact that this is one of the themes of this Conference today. This has been an exciting topic of discussion amongst the academia and market participants in recent times. In the annual conference of FEDAI held in Zurich in 2012[4], I had alluded to this aspect in some detail keeping in view the seven prerequisites for moving towards internationalisation of a currency as laid down by Peter Kennen. The issues relating to pace and sequence of internationalisation; in fact, even its definition and desirability, continue to be raised with a lot of passion. I must mention that the Rupee was in a sense an international currency till the 60's and it was even a legal tender in parts of Africa and much of Gulf. Those were the Bretton Woods days of fixed exchange rate and the Rupee was linked to the Sterling. After a quarter century of near autarchy in currency, the 90's saw a flexible exchange rate regime, complete convertibility on the current account and gradual opening up of the capital account. Today, Indian holding of global assets including the official reserves and the global holding of Indian assets are very large. India has tremendous growth prospects and even in these days of tardy growth around the globe, the Indian growth story continues to be a beacon of light. The world obviously wants to have a share of this pie and Indian assets continue to be valued and attractive. But with this will come the exposure to the volatility of

[4] 'Musings on the FEDAI, the forex market and the Indian Rupee' address by Shri Harun R. Khan, Deputy Governor of the Reserve Bank of India, at the 7th Annual Conference of the Foreign Exchange Dealers Association of India (FEDAI), Zurich, 5 April 2012.

Indian Rupee and the need for hedging the risk. The NDF market came into existence to address this need and, no wonder, continues to thrive. The correct approach to address this problem is not to engage in an *ad hominem* tirade against the NDF market and its participants but to address the genuine need by increasing the access to domestic onshore market to all those who have a legitimate Rupee exposure. Several steps have been taken in this direction and more are in the offing.

28. In a sense, internationalisation of Rupee is rather a process than an event. The pace of the process depends upon how fast the capital account opens up which in turn depends upon the evolving macroeconomic conditions and the financial stability concerns. Rupee cannot be an international currency by issue of a fiat. Pound Sterling in its time or US Dollar today achieved the status of the leading international currency of the day because the inherent strength of their economies and their financial markets and not by any administrative proclamation. The conditions necessary for greater internationalisation of Indian Rupee in terms of its acceptability in trade and other cross-border transactions, as a reserve currency and reaching much higher level of capital account convertibility will be ensuring the macro-economic stability, and having a deep and liquid financial market. In the interim, the measures taken and planned for using Indian Rupee in trade denomination and settlement, particularly with our neighbouring countries, where intra-regional trade volumes are very low, should be taken forward. And also the facilities for onshore hedging of all non-resident entities for their increasing capital account exposure including off-shore Rupee bonds issued by multilateral institutions and Indian corporates should be eased further.

Concluding thoughts

29. As I prepare to hang my boots after a long campaign, various shades of feelings and emotions flash across my mind. I have had an almost four decade long association with the country's central bank and with its financial system. This is a pretty long period in the modern times. Around the time I joined the Reserve Bank, momentous things were happening around the globe. The Bretton Woods System had broken down, so had the Smithsonian Agreement. Following the Jamaica Agreement of Jan 1976, the flexible exchange rate regime had been officially endorsed. The European Exchange Rate Mechanism was being conceived and would be introduced in 1979, to culminate in a single currency two decades later.

30. Closer home, though the 'draconian' legislations FERA, enacted in 1973 and COFEPOSA, in 1974 were at their prohibitive peak, we had begun to emerge from the dark ages. The Green Revolution had taken roots mitigating the pressure on our BoP for importing foodgrains and the remittances from the expatriates were buoyant. Both put together, had eased our external sector management. Since then, despite ups and downs, we have grown in strength in the management of our external sector, which in turn has catalysed our quest for growth and development. Though much remains to be done, the achievements are not to be scoffed at. To mention just one statistic, the life expectancy at birth was 41 years in 1960, 54 years in 1978 and has gone up to almost 70 years at the latest count.

31. A vibrant financial sector is an inevitable part of a developed modern society. In due process of development of the financial sector, it culminates in seamless integration with the rest of the world. In the

meantime, it is the responsibility of the regulators to steer the process in a non-disruptive and facilitative manner. I hope that we have achieved that to a large extent and I personally feel happy and proud to have played some part in that process. We are now ready for transiting to a more developed economy and advanced society. As the Prime Minister paraphrased Walt Whitman in his recent address to the US Congress '*The orchestra have sufficiently tuned their instruments, the baton has given the signal, and …..there is a new symphony in play*' I shall enjoy the music from my comfortable perch outside the burden of responsibility.

32. I wish the convention all success and would like to convey my best wishes to all the participants for whatever endeavours they may choose to pursue.

Thank you all.