

Project title: The Lamfalussy Process and Corporate Governance in the Investment Fund Industry: The Effects of Deregulation in Romania

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### Non-Technical Summary

The project generated two research papers:

1. Tulbure, N., 2009. The Cultural Mediation of Transnational Regulations: Competing Institutional Forms for Romanian Mutual Funds.

The paper examines the negotiation of competing institutional forms considered for the newly created Romanian mutual funds after the collapse of state socialism. It describes the replacement of the American model of mutual funds adopted during the 1990s with the emerging European model after 2000 and focuses on the political disputes and legal contentions occasioned by this process of regulatory reform accomplished in 2004.

The paper suggests that the uneasy reception of the new institutional arrangement is related to the shifting premises for the formation of value and the deeper changes in the prevalent notions of ownership, risk, and worth associated with Romania's economic transformation. Working with a concrete example where competing institutional frameworks are debated and disputed, it illustrates how the adoption of transnational financial regulations is mediated by cultural categories and preexisting local disputes over value.

More specifically, the paper finds that:

- Lay investors prefer the American model of regulations that allowed for a collective form of ownership over mutual funds;
- The legitimacy of the new regulations is undermined by the previous financial scandals and the ambiguous supervisory measures of the Romanian securities commission in the past;
- Social and cultural conceptions of risk and value affect the contingent form that European regulations ultimately take in national arenas;
- Lay investors do not trust the utility of impersonal and detailed regulations in preventing mismanagement of mutual funds.

Based on the above findings, the authors formulate the following policy recommendations:

- Securities regulators should implement broad and repeated consultations with market actors in order to build the legitimacy of new regulations gradually;
- Equal attention should be paid to the enforcement of regulations and the costs of compliance with new rules;
- State officials should factor in the impact of cultural values and social norms on financial practices and the transposition of legal frameworks in addition to cost-benefit and normative analyses of regulations.

**Keywords:** values in use, social change, mutual funds, transnational regulations, ownership and money, financial risk

2. Tulbure, N., Cataramă, D., 2009. Institutional and Socio-Cultural Factors Explaining the Development of Mutual Funds. A Cross-Country Analysis.

The paper looks at the institutional and socio-cultural factors explaining the differential development and growth rates of the mutual fund industry in a sample of 41 countries. It indicates that the development of mutual funds is influenced positively by regulatory quality and economic and financial system development, but it is negatively related to the presence of a Lamfalussy type regulatory framework (as in all member states of the European Union). Also, widespread belief in work as the legitimate source of monetary gain seems to be negatively associated with mutual fund development.

At the same time, the growth rates of national mutual fund industries are negatively related to general economic development. The negative coefficient of the variable coding for regulatory quality indicates that a poorer regulation of the field (when compared to the developed countries) does not necessarily inhibit growth, especially in the case of young industries. Lamfalussy regulations do not have any significant effect on mutual fund growth during the period considered (1996-2007). Also, mutual fund industries have grown most rapidly in countries with high percentages of Muslim and Christian Orthodox believers.

More concretely, the paper finds that:

- Overall regulatory quality is one of the most important factors responsible for the development of mutual funds around the world;
- The Lamfalussy type regulations present in all EU countries in the survey do not so far have a positive influence on either mutual fund development or growth; this might be an argument for further measures at the EU level and for a more efficient enforcement in national contexts;
- Widely held cultural conceptions seeing work as the only legitimate source of money seem to inhibit both the development and growth of mutual funds.

Based on the above findings, the authors formulate the following policy recommendations:

- National authorities can adopt measures for the stimulation of mutual fund growth even before having the best regulations in place;
- The long-term objective should be the improvement of legal effectiveness and regulatory quality as these measures make financial collapses less likely and ensure sustained development of mutual fund industries;
- Industry responsables might find it useful to implement public information campaigns aimed to present financial investments as legitimate sources of gain.

**Keywords:** mutual funds, the Lamfalussy process, quality of regulations, work and money, socio-cultural values, religion and finance