

# **THE INSTITUTE THAT CHANGED MY LIFE**

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## **1 WHEN KAIST CAME**

As human beings, we like to constantly and continuously improve our knowledge, if given the opportunity. However, it is not every day that such opportunity presents itself in the open. In fact, for some people, educational privilege is, most of the time, evasive that they think it will not come at all. As for me though, KAIST came in such an opportune time and made a huge change in my life, both academically and professionally.

### **1.1. THE SCHOLARSHIP PROGRAM**

It was March 26, 2012 when my agency, Securities and Exchange Commission (SEC), received an invitation from Korea International Cooperation Agency (KOICA) for a scholarship program entitled “KOICA-KAIST FINANCE MBA PROGRAM FOR GOVERNMENT OFFICIALS OF EMERGING ECONOMIES” from August 2012 to March 2014 at Korea Advanced Institute of Science and Technology (KAIST) in Seoul, Korea. My immediate supervisor recommended me for the program with the hope that studying in KAIST will further help me gain professional and systematic knowledge and impart the same to my colleagues in the SEC.

When schooling started, I felt a different atmosphere of education in KAIST— very competitive and rigorous. Most of the courses were too technical. The students were very competitive too. It was difficult not to study but it helped that the professors were as eager to teach as the students to learn. Despite the difficulties, however, I took pride in studying at KAIST because there was no time when people didn’t give me all their praises and admiration whenever I tell them that I study at KAIST. Who wouldn’t be proud? Indeed, studying at KAIST changed my perspective about education and brought my learning experience to a higher level.

Looking back, I remember that, when courses get tough, I always remind myself that I was sent to KAIST because my country entrusted me with a very important task that I shouldn’t fail — *to take the Master’s degree not only for self fulfillment but more importantly to gain knowledge that I will be able to share with my colleagues in the SEC.*

### **1.2. MY RESEARCH PAPER**

This was what inspired me in choosing the topic for my independent research paper in KAIST. My mentor-advisor **Professor Martin J. Dierker** emphasized to me that I need to write about something that I am good at and that I can share with my co-workers or apply to my work so that’s what I did. I

wrote about **“Regulating Stock Market Manipulation - A Comparison between the US and the Philippines”** since I have been investigating and prosecuting cases about stock market manipulation and I deem it wise and helpful that I dig deeper about capital markets. Who would have thought that my whole agency would be eager to learn about it? Who would have thought that I will be able to impart to my co-employees facts that they did not know before? Who would have thought that this, along with my recently earned degree from KAIST, would merit my immediate promotion to a higher position in the SEC? I believe that there is no better illustration to describe how KAIST changed my life for the facts, as I mentioned above, speak for them.

## **2 KNOWLEDGE SHARING**

### **2.1. ROUND TABLE DISCUSSION**

Reporting back for work in April 2014 proved that my research paper was a hit. Then being with the Enforcement and Prosecution Department (EIPD), my research paper was an actual fit to our practical work since we largely deal with erring companies who try to thwart securities laws and rig the capital market. In this light, I was asked to present and share my study, on a **one-hour round-table discussion**, to my fellow investigators and prosecutors in that Department. As eager as I was to know how the United States (US) combat stock market manipulations, my colleagues listened attentively when I discussed my research paper to them on April 11, 2014. The way how manipulators abuse the securities market and how they get away with it highlighted and ignited the discussion. One of my colleagues opined that my study should open our minds to the fact that if stock market manipulations are committed in a developed country like the US, nothing will stop the manipulators in a developing country like the Philippines to do the same. He was right because if supposedly more efficient and sophisticated market like the US can be affected by large volume positioning, growing markets like the Philippines, are likely more vulnerable to this happening. The discussion did not stop there for even in our break time, my colleagues went on discussing about it. At the end of the day, though, we were still troubled by the fact that stock market manipulation is inherently hard to prove so if we want to move forward, we need to establish a baseline, especially us who investigate its commission —to be able to detect and establish stock market manipulation.

Despite the seeming idealism envisioned and serious challenge posed by my research paper, I couldn't help but feel proud because through my study I was able to open their minds to the possibility that we can do it. Being given this opportunity is another achievement for me. I couldn't thank my mentor-advisor **Professor Martin J. Dierker** enough for guiding me in choosing this topic because of its applicability to my work in the SEC.

And just when I thought that KAIST has already given me enough new perspectives and achievements, my promotion as Chief Counsel of the SEC's Corporate Governance and Finance Department (CGFD) was announced in July 2014. Now I occupy a managerial position, handle technical staff and more relevantly, get to apply the knowledge that I gained from my MBA in my work such that when confronted with matters related to Finance and Law, which happens almost every day, or Financial Management and even Financial Accounting, I have stock knowledge to apply. My new position is, indeed, an everyday reminder of some of my academic learnings in KAIST. I bet my professors would love to hear how their mind-boggling lessons that almost dissipated my mind are now part of my everyday work. This is why in all my writings about KAIST or KOICA or Korea, I never failed to thank KAIST Professors for being a huge part of my degree in KAIST because they were instrumental to my success.

## 2.2. SEMINAR IN MALAYSIA

Moreover, my new position did not only bring new responsibilities but new trainings and seminars as well. One of which is when I was sent as one of the representatives of the SEC to Malaysia to take part in the **“Corporate Governance Consultation and Technical Assistance Program for the SEC Philippines”**. It was a four-day seminar from September 24-28, 2014 held at the Securities Industry Development Corporation (SIDC) of the Securities Commission of Malaysia with the view to offer technical assistance to several developing economies like the Philippines, to support their potential membership to the Asia Region Funds Support (ARFP). This assistance aims to complement the on-going efforts to undertake institutional reforms and adopt regulatory practices that would allow the said economies to open their financial sector and participate in regional capital market integration scheme like the ARFP.

During the seminar, we tackled the necessary steps that the Philippines has to undertake in order to allow its economy to passport funds and actively implement the ARFP scheme. Part of these steps involves reviewing and reforming the Philippine Corporate Governance (CG) Code as they relate to the financial sector. The aim here is to strengthen market integrity by ensuring that funds industry players in the Philippines adopt good CG practices that meet the principles of International Organization of Securities Commissions (IOSCO) and Organization for Economic Cooperation and Development (OECD).

The core value that the seminar taught us is that “a funds industry that supports greater market integrity is less likely to breach the rules and regulations underpinning the systems and processes that support financial sector activities”. At this point, I was able to share to the group and relate the discussion to my research study about stock market manipulation and the findings that “financial regulation needs to safeguard systematic stability, protect the integrity of the market and foster market efficiency in order to

maintain competition and protect investors against market abuse” (*Rebecca Soderstrom, Regulating Market Manipulation-An Approach to Designing Regulatory Principles, UPPSALA Faculty of Law, 2011*). If these aims are attained, the overarching objective of the financial market regulation will be served — the preservation of investor confidence in financial markets.

Asked about how corporate governance is correlated to stock market manipulation, I told the group that “the industry players, namely, broker/dealer, insider, market maker, underwriter, shareholder, and stock promoter, are usually those who are involved in stock market manipulations based on my study and the previous study of *Aggarwal and Wu*, which I cited in my research paper (*Stock Market Manipulations, Journal of Business, 2006, Vol. 79, No. 4, University of Chicago*) so if they conform strictly to best corporate governance practices, such that they don’t take advantage of insider and asymmetric information for their own advantage, I believe that manipulations will be slowly hampered, the capital market will regain investors’ confidence and the securities industry will attain greater market integrity”.

After the seminar, I felt all the more accomplished. Although in a nutshell, I was still able to share my study and point of view to our speakers and mentors from Malaysia.

### 2.3. ECHO SESSION

Sharing about my research paper continued when I was asked on September 7, 2015 by the SEC Learning Resource and Information Division (LRID) to conduct an **Echo Session** about it for the other Departments in the SEC. Though it was scheduled on September 30, 2015, I couldn’t imagine how nervous yet overwhelmed I was that time since from a small crowd in my previous Department, I will be sharing my study with several Departments in the SEC. Prior to this and in order to aid my presentation, I deem it more helpful to give the SEC library a hard copy of my research paper so that anybody who would want to read it can have easy access to it, which I did the day before the Echo Session.

The Echo Session is so called because it is a short presentation about topics that have been the subject of a scholarship that employees have attended to, abroad or locally. It aims to echo to colleagues what attendees have learned in their study with the hope that the whole agency can learn something from it and apply the same in practical work.

During the Echo Session on September 30, 2015, I was surprised how many people came in. An Echo Session normally holds only about ten to twenty participants but that day was an exception since there were a total of twenty- five (25) participants from the different Departments of the SEC particularly Markets and Securities Regulation Department (MSRD), Enforcement and Investor Protection Department (EIPD), Office of the General Counsel (OGC), and Office of the Chairperson (OC), the four Departments which closely scrutinize the capital market in the Philippines.

Although nervous that I may not be able to meet their expectations about my research paper, I was astonished about how they welcomed the topic and how interested they were to know more about it when they raised several questions in the open forum after my presentation.

### 2.3.1. Q & A

#### a. Specific recommendation for the Philippine SEC

The assistant Director of the MSRDC asked my **recommendations for the SEC** in relation to my study. She opined that my recommendations in the paper are in general terms so she wanted to know the specific recommendations that I can give to the SEC. I told her that from what I see, the basic problem is the inherent difficulty of establishing stock market manipulations so I encouraged them to **get familiar with the different manipulative schemes** that I have discussed and master the techniques on how to detect and investigate them. I emphasized though that there is no hard and fast rule here and there should likewise be no short-cuts in doing the same because stock market manipulation is very technical and difficult to establish. I repeated my earlier discussion that once we have laid the premise—that is establishing its commission, we need to **collate strong and implicating evidence** against the manipulators and ultimately learn how to safeguard these pieces of evidence because safeguarding evidence from loss, destruction and natural disasters such as flood and fire, has been a big challenge for the SEC for quite some time now. I think that they all agreed with me when I said that if we aim to bring the culprits to justice then the appropriate solution is to **keep these pieces of evidence in tack at all cost**. However, I told them that I also recognize the fact that no matter how hard we try to bring these manipulators to justice, our efforts will be in vain if the higher up—the management—is not inclined to do so. It is necessary therefore that **corruption and political affiliation be curtailed** and to **prosecute the violators despite their wealth and influence**.

#### b. Related study

Another Assistant Director, this time from the EIPD, asked if there is a **previous study finding a positive correlation between an effective enforcement of securities laws and financial and economic development**, to which I answered in the positive since I used the same in my research paper. I recalled my earlier discussion about it and recapitulated that in the study made by *La Porta, Lopez-de-Silanes, Shleifer and Vishny (Law and Finance, The Journal of Political Economy, Volume 106, Issue 6, December 1998)*, they examined laws governing investor protection, the quality of enforcement of

these laws, and ownership concentration in forty-nine (49) countries around the world, including the US and the Philippines. The authors concluded that **there is a link from the legal system to economic development** when they conducted survey of whether the countries with poor law enforcement really suffer. Nonetheless, they surmise that while weak law enforcement has adverse consequences to financial development and growth, they are, nonetheless, surmountable.

c. Undetected SMM commission

Another challenging question that was asked by a lawyer from the EIPD is if I believe that **there are stock market manipulations being committed that we at the SEC do not detect** and what I think is the reason **why** we don't. I had to pause for a moment before answering the question lest I might incriminate the SEC or speak about things unsupported by facts since I don't have personal knowledge about the recent happenings in the capital market. Nonetheless, I told him that I believe that there might be if we are to consider how rampant it is anywhere in the world today. However, I emphasized to him that I likewise believe that it is not that we do not detect it like it is intentional on the part of the SEC to ignore it, but rather it is because, most of the time, we **cannot detect that it is already being committed** because as I already said, the **manipulative schemes are inherently difficult to establish** considering, first and foremost, that **"intent"**, which is an essential element of the crime, is hard to prove, it being a **state of mind**.

d. Actual case

An investigator from the same Department cited an actual case in their Department where **a single person, who appears to be unrelated to any trading participants, traded in a high volume for three days by taking long positions in a stock which made the price of the security to rise and beat the fifty percent (50) ceiling set by the Philippine Stock Exchange (PSE)**, and asked if she can have a basis for stock market manipulation in this case. My initial assessment is that it could be **"painting the tape" transactions** where a person or a group of person engages in a series of transactions that are reported on a public display facility to give the impression of activity or price movement in a security. Instances like this should raise a red flag and have to be investigated further. This can be a prelude to other manipulative conducts like manipulators always do.

#### e. System to detect SMM

The host of the echo session herself could not contain her interest and had to ask if there is a **system that we use here in the Philippines in order to easily detect the commission of stock market manipulations**. I answered **“yes and it is in fact from Korea”**. The Philippine Stock Exchange (PSE) has teamed up with Korea for its state-of-the-art surveillance system dubbed, **“Total Market Surveillance” or TMS**. TMS was developed by the Korea Exchange to enhance the capability of Philippine Capital Markets Integrity Corporation (CMIC) to monitor stock market transactions. The PSE said that with the establishment of the system, together with the essential collaboration of trading participants, the confidence of the investing public in capital market institutions shall be reinforced further and a more active and vibrant market participation will be truly promoted. Integrated into the TMS system are features such as detection rules, statistic analysis models, and pattern recognition logics which are crucial for maintaining a fair and orderly market. The new surveillance system is dynamic, efficient, scalable and reliable. At the minimum, the system is designed to support a market of one (1) million orders/trades per day and to easily adapt to other market instruments and products. The PSE further said that the full roll-out of the TMS system affirms the bourse's role in enhancing market integrity and transparency (*Manila Bulletin, June 7, 2013*).

Due to the interest of the participants in the subject matter, the host asked them if they want the same topic to be discussed further and deeper in a series of seminars and be part of a training module for the SEC employees, which they, in unison, answered affirmatively. Again, I couldn't feel any happier and accomplished that time. The target implementation of the said training module entitled *“SEC Enforcement and Market Oversight”* is January 2016.

### **3 LESSONS LEARNED**

#### **3.1 GRATITUDE TO LIVE BY**

I know that it has just been over a year since I graduated from KAIST yet my accomplishments have been overwhelmingly numerous already. If I did not grab the opportunity way back in 2012, my life, academically and professionally wise, will remain flat. I will not deny that even if I had a hard time dealing with some of the courses in my degree that I practically had to spend sleepless nights to be able to hurdle them, all my efforts paid off. **KAIST changed my life. There is no denying to that.**

### 3.2. MEMORIES TO LAST A LIFETIME

Other than this, I think that the equally important lesson in my whole KAIST journey is the chance I had to meet new people whom I never thought would help me overcome the hardship and to build a genuine camaraderie with them, namely, my **KOICA co-scholars** who served as my second family so I will not be feeling homesick but at home, helped me brainstorm over the intricacies and technicalities of the courses, had been with me all throughout my stay in Korea and enjoyed Korean culture, tradition, food, clothing, and historical places with me; the **other students in KAIST**, both Koreans and foreigners who, at one time, were my classmates and later on became my close friends; the **professors and staff of KAIST** who had always been supportive of us, KOICA scholars, who never failed to attend to us whenever we were in need, be it about our subjects or about other things in general and who never made me feel discriminated against even if I was not the best student in KAIST; and the **management and staff of KOICA** who in the first place sent the invitation and opened this once-in-a-lifetime opportunity for me.

### 3.3. KNOWLEDGE WORTH SHARING

For these reasons and more, I will always be proud and eager to share this story and relive it again and again, if given the chance. I know that for me, this is just the beginning of a better life and career and more knowledge sharing opportunities. I know that my KAIST degree will bring me further ahead and I'm up for the challenge. After all, learning is a lifetime process and it is by continuously learning that we improve, challenge and constantly increase our knowledge.