IOSCO ANNUAL CONFERENCE – CAPE TOWN 17 – 21 APRIL 2011

OPENING SPEECH BY THE DEPUTY MINISTER OF FINANCE

Members of the IOSCO executive committee
Invited guest speakers
Distinguished delegates
Members of the media
Ladies, gentlemen and colleagues

Let me commence by extending a warm welcome to all of you to the 36th IOSCO Annual Conference in our beautiful Mother City, Cape Town. On behalf of all South Africans, I would like to say that we are honoured to host the 2011 IOSCO Conference. IOSCO is recognised as a leading international policy forum and the most important international cooperative forum for securities regulatory agencies.

We celebrate today the opening of the IOSCO conference in Cape Town, a year after South Africa hosted a spectacular World Cup event. I am delighted to see so many members of IOSCO, both from the developed and developing countries, and other local and foreign market participants, joining us in this celebration.

The Conference will serve as a platform to debate very pertinent topics, including;

- the role of securities regulators with respect to systemic risk;
- the challenges and interventions required for the development of local debt markets;
- recent international corporate governance trends; and
- the importance and the role of regulators in respect of consumer education.

I am glad to observe that participation in this year's panel discussions is inclusive of opinion and experience from both the developed and developing markets. I trust that these topics will invite a lively debate and I wish to take this opportunity to thank our esteemed keynote speakers, panelists and moderators in advance, for your valued contributions in sharing your experience and knowledge on the topics under discussion.

From my side, I would like to share a few thoughts on the role of securities regulation in a changing world, with the crisis still looming over us from recent history.

THE GLOBAL FINANCIAL CRISIS AND FINANCIAL MARKETS

Let us start with recounting the well known story of 2008… When Lehman Brothers filed for bankruptcy on Monday 15 September 2008, scared investors made a run for their assets, leaving multitudes of banks and companies with insufficient funds that had knock-on effects on the wider economy. Panic resulting from the Leyman's failure meant that by the time the markets opened, the Dow had fallen by about 504 points. Other exchanges, including South Africa's, followed suit (eventually wiping out about 40 percent in value). The overnight lending rate in London nearly doubled. The cost of insurance against credit default soared, triggering collateral calls for thousands of hedge funds, banks and insurance companies. A day later insurance giant AIG, with its $1 trillion in assets, teetered on the edge of bankruptcy, ultimately saved through a multibillion dollar bailout by the Fed. There was a run on money markets funds, triggered by the Reserve Primary Fund's exposure to Lehman's. The chaos continued, spilling across all financial service segments and geographical regions, and ultimately into the real economy.

The international financial regulatory and contingency planning system had failed us. It was only through international coordination on a scale never before witnessed, that we were able to stabilize the global financial system, and start the long and difficult path towards recovery.

THE CHALLENGE OF INTERCONNECTEDNESS

The impact of the crisis on the global economy has clearly shown how developments in one market may affect the financial system as a whole.

South Africa was affected in the main by the secondary effects of the crisis with a loss of jobs for an estimated one million South Africans. The reasons for what saved the domestic financial system from the worst of the crisis can be attributed to a robust financial regulatory framework, a generally conservative approach to risk taking by the domestic financial sector and, ironically the underdevelopment of mortgage product mutations and exotic derivatives products.

In any case, the interconnectedness of the global financial system emphasizes the need for much closer cooperation between securities regulators and between financial sector regulators in general. As such, there is no doubt that the IOSCO Multilateral Memorandum of Understanding on the exchange of information and regulatory assistance has been and will continue to be instrumental in this regard.

STRENGTHENING REGULATION AND MITIGATING SYSTEMIC RISK

As a robust policy and regulatory response to the financial crisis, deliberations in the G20 together with the Financial Stability Board on financial sector regulatory reform, resulted in the issuing of regulatory recommendations that respond not only to the current crisis, but mitigate risks that could cause a revisiting of the global financial crisis. I must congratulate IOSCO for actively participating in these fora and taking the initiative to revise and expand the principles of securities regulation and the accompanying methodology, I am cognisant of other pertinent developments within the securities markets including the recent adoption of 8 new IOSCO principles, which brings the number of IOSCO principles to 38.

These new principles reflect a shifting global policy agenda to protect system stability through enhanced transparency, appropriately aligned incentives and better regulatory coordination – amongst different regulators within a jurisdiction and as well as internationally - and covers specific policy areas such as –

- hedge funds;
- credit rating agencies;
- auditor independence and oversight;

- the monitoring, mitigation and managing of systemic risk by securities regulators;
- regularly evaluating the boundary of regulation; and
- requiring that conflicts of interest and misalignment of incentives are avoided, eliminated, disclosed or otherwise managed.

EXTENDING THE PERIMETER OF REGULATION

The financial crisis has highlighted that both regulated and unregulated financial markets are the mechanisms by which risk is transferred within the financial system.

As a result, many countries, including South Africa are embarking on the re-evaluation of their financial sector policy priorities.

We are pleased to inform you that the National Treasury of South Africa has recently announced the adoption of the Twin Peak Regulatory Model. This model will be introduced in South Africa over the next three years with the intention of strengthening our regulatory regime to protect consumers of financial services while maintaining financial stability.

In brief, the South African Reserve Bank will be responsible for prudential regulation while the Financial Services Board will have responsibility for market conduct regulation. This is being proposed in order to address the inherent conflicts between prudential regulation and consumer protection, and is aimed at ensuring that transparency, market integrity, and consumer protection receive sufficient priority. In addition, the existence of separate prudential and market conduct regulators is a way of creating a system of checks and balances, thereby avoiding the vesting of too much power in the hands of a single agency.

To support coordination between these and other financial agencies, a Council of Financial Regulators has been established to ensure the flow of information and coordination in areas such as enforcement, market conduct and legislation. A Financial Stability Oversight Committee, comprising the South African Reserve Bank, Financial Services Board and National Treasury, will coordinate financial stability issues, responsible for both mitigating the risk of any crisis and for a resolution in the unlikely event of such a crisis.

We are confident that our market conduct regulation as benchmarked against IOSCO's principle eleven will protect our consumers against exploitation and misrepresentation by financial services providers.

I have also noticed that the conference will have a panel discussion on consumer education, which I regard as extremely important in achieving our goals on consumer and investor protection.

I am hopeful that the debate on consumer education will also strengthen initiatives by the Financial Services Board in adopting its proposed Treating Customers Fairly (TCF) framework. As you may well be aware this project seeks to change the way that market participants do business, and encompasses the full product development, intermediation and recourse cycle to help deliver a more consumer-oriented approach to financial services. We regard the TCF initiative as an important step in strengthening our market conduct objectives in the financial sector, and thus complement government's broader objectives in this area.

As part of the move to the twin peak model, we will be expanding the Financial Services Board by creating a dedicated retail banking services market conduct regulator within the FSB, which will work closely with the National Credit Regulator (which by governing the way credit is sold into the retail market has itself significantly protected South Africa against events observed internationally relating to the mortgage markets).

Furthermore, other initiatives aimed at expanding the purview of regulation are also underway. One such initiative is the investigation of interventions required for the improved regulation of hedge funds, bearing in mind that hedge fund managers are already regulated in South Africa under the Financial Advisory and Intermediary Services Act, 2002.

Other regulatory responses to reduce risk and to promote transparency and investor protection within our markets include the regulation of certain OTC derivatives.

The Securities Services Act of 2004 has also been redrafted to provide the FSB with greater powers in respect of the regulation of unlisted securities. Informed by South Africa's recent FSAP (which tested South African regulation against, amongst others, the IOSCO principles), South Africa's commitment to principles contained in the UNIDROIT Convention on Substantive Rules regarding Intermediated Securities, as well as the crisis and resulting G20 and Financial Stability Board recommendations, the Financial Markets Bill, which will replace the Securities Services Act, also:

- Aligns financial markets regulation with best practice, extending the scope of regulation, strengthening the regulation of securities intermediation, and strengthening governance requirements for the Registrar and self-regulatory organisations; and
- Strengthens supervisory and enforcement authority of the Financial Services Board as industry regulator, and creates a platform for the signing of Memoranda of Understanding with regulators in other countries

The Credit Rating Services Bill under which credit rating agencies will be regulated has also been prepared.

CONCLUSION

Ladies and gentlemen, I have been informed that a new strategy for IOSCO for the next five years has been extensively debated and discussed during the last few days to enable this Organisation to more effectively achieve its objectives.

I am glad to learn that the role of emerging markets is acknowledged and that emerging markets will in future play a more active role in the formulation of securities regulation.

I am confident that the topics selected for the public panel discussions during the next day and a half are most relevant and I trust that it will solicit live debate and I wish you productive discussions.

I also wish to make use of this opportunity to thank IOSCO and its members for the valuable work being done in consultation with the supervised financial industry to protect investors and to ensure our capital markets operate in a transparent, efficient and fair manner.

To give effect to IOSCO’s new principles, securities regulators will have to take up the challenge of introducing necessary measures to effectively manage and mitigate systemic risk in future.

On a lighter note, I would like to take this opportunity to invite you to explore our beautiful country and to enjoy the nature’s wonders before departing.

Ladies and gentlemen, it is now my privilege to declare this Conference as formally open.

I thank you.