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Australian Securities & Investments Commission

Improving the global consistency of financial regulation

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Introduction

Thank you for the opportunity to make some introductory remarks on consistency in global regulation – with a focus on financial services and markets regulation.

Consistency is important for two reasons.

The first is economic.

By supporting the freer flow of capital across borders, regulatory consistency can deepen capital markets and, in so doing, support economic growth;

The second is the effectiveness of global regulation.

Consistency, by definition, reduces the arbitrage risks which threaten our three strategic goals – confident and informed investors, fair and efficient markets and a reduction of systemic risk. Consistency addresses the risk of a 'race to the bottom'.

Defining consistency

When I talk about consistency of global regulation, I'm not saying we should have identical rules which apply in the same way, regardless of national circumstances.

The consistency we should be aspiring to – and which I believe is politically feasible – is consistency of regulatory outcomes based on commonly agreed and sufficiently granular standards. That is, achieving the same regulatory outcomes, where each jurisdiction can use different rules to get to those outcomes.

At a high level we have the same objectives – the challenge for us is to deliver these objectives and outcomes at a granular level.

What are the challenges to achieving global consistency?

The challenge comes in how each of us reconciles our commitment to global solutions to global problems with domestic regulatory objectives applied to domestic markets – thinking globally while acting locally;

These challenges have been complicated in recent years by three additional factors – each of which is evident in implementing the OTC derivatives regulatory reform agenda.

The first is the **extraterritorial application of regulation**. Firms operating in different countries have faced two sets of possibly conflicting laws applied to the same activities.

The second is **differences in timing** in introducing new regulation. These differences expose markets to periods of potential inconsistency in regulation.

The third is the **absence of an effective global framework** to guide how we think about these issues.

Addressing this challenge

How do we address these challenges?

Global institutions are the key. In the financial services and markets space, IOSCO has an important leadership role to play. IOSCO's leadership role has two elements.

The first element is developing authoritative global rule books for regulators and policy makers.

The rule book of itself won't make regulation identical – but it will provide a way of putting us on the same page, working toward the same objective.

IOSCO's challenge is to build rule books which are:

- sufficiently granular;
- supported by a detailed methodology about applying the rules; and
- delivered in a timely way.

The second element is that IOSCO has a role in providing guidance on how to knit domestic regulatory regimes together when national rules differ. At our recent Board meeting in Sydney we agreed to progress a mandate to do this.

The mandate has two parts.

The first is to develop a tool box of measures currently in use about how regulatory regimes fit together (tools such as mutual recognition and substituted compliance).

This will give us a shared understanding and a common language about how we approach these issues.

The second is to develop guidance on how the tools might be used.

Conclusion

By developing a global rule book and a tool box to overcome differences in national rules, I see IOSCO as playing an important role in promoting consistency in global regulation.

By focusing on equivalent regulatory outcomes, we can avoid fragmenting our markets at a time when we are in desperate need for our markets to be providing capital to support economic recovery.