Remarks by Tajinder Singh, Deputy Secretary General, The International Organization of Securities Commissions, At the Corporate Governance Summit 2015: "Gatekeepers of Governance"

Mumbai, 27th November 2015

Let me begin by thanking Excellence Enablers and in particular Mr Damodaran for their kind invitation. I should preface my comments by saying that I am making them in my personal capacity.

It is an absolute pleasure to be here again this year. I have had the privilege and honour to work with Mr Damodaran and with Mr UK Sinha. Both Mr Damodaran and Mr UK Sinha have been very influential figures in IOSCO. Mr Damodaran's Chairmanship of the IOSCO Emerging Markets Committee (EMC) and Mr Sinha's term as Chairman of IOSCO's Asia Pacific Regional Committee (APRC) injected fresh energy and dynamism to the work of these two committees, and to IOSCO in general. The IOSCO Annual Conference of 2007 organized under Mr Damodaran's Chairmanship was called the "Mumbai milestone" for reaching the level of 50% signatories to the IOSCO MMOU. I can say that the intellectual incisiveness imparted by both of them was matched only by the sound practicality of their solutions to tricky issues- something that is, in many ways, the hallmark of people who have had the experience of a vast playing field like India.

Allow me to mention a few words about IOSCO: the International Organisation of Securities Commissions. IOSCO is the global standard setting body for securities regulation with more than 125 regulators. Together, IOSCO's members regulate more than 95% of the world's capital markets. IOSCO is one of the international organizations at the forefront of global regulatory reform working with the Financial Stability Board and the G20. In addition to setting standards, IOSCO helps its members, a majority of whom are emerging markets, in capacity building; it also monitors implementation; and it constantly surveys the environment for emerging risks. IOSCO's objectives are investor protection, fair, efficient and transparent markets and reduction of systemic risk, which are not very different to SEBI's objectives.

Present global environment:

From a global point of view, we are seeing a move towards increased market-based financing of the economy. The global conversation is also moving from stability to growth issues and issues relating to climate change, green financing and infrastructure, among others. It is indeed interesting that these two shifts, the shift from bank to market based financing, and the shift in the overall regulatory agenda towards growth, is happening at the current juncture.

The shift to market based financing is naturally of tremendous interest to market regulators, who are our members. And what is the key word for regulators in this context?

Let me digress a little here. There was a survey of the most used word in the English language last year. Can you guess what that word was? It was actually not a word, but it was the "emoji" or the emoticon people use on their messages. Similarly, the most important word in finance is not actually a financial word. It is "trust", because that is the lubricant for markets to function- in the absence of trust, the system can quickly freeze. I like to think about trust in three dimensions in the context of IOSCO's work.

One key dimension of trust is whether the system, the financial infrastructure in which finance works, is trustworthy. IOSCO has been working in this dimension of making the financial system safer through its work on derivatives, CCPs; Dark pools and HFT; financial benchmarks and CRAs and asset management, to name a few.

The second dimension of regaining trust is investor protection, which is of course the core job of IOSCO and securities regulators like SEBI. Some examples of our recent work in this regard are protection of client assets; disclosure made to customers at the Point of Sale when selling financial products; on investor suitability for complex financial products and on the regulation of retail structured products. We also have a **global** investor alerts system. Investor education and financial literacy are an important part of IOSCO's work. A new area of work we have started, in this dimension, is the work on market misconduct **-** particularly on individual accountability.

The third dimension of trust is the trust between authorities and regulators globally. The paradox of course is that markets are clearly more and more global; on the other hand, sovereignty, legislative mandates and mandates of regulators are national. IOSCO's Cross Border Task Force analyzed these issues and came out with a toolkit on cross border issues which we published a few months ago.

Importance of corporate governance

Corporate governance is of course crucial to generate trust, which as I mentioned, is the key lubricant for the functioning of market based financing.

Because of this recognition, there have been quite a few recent developments globally in corporate governance. I will mention some of these:

One major development is that a sister international organization, the OECD, has updated the Corporate Governance Principles and these have been endorsed by the G20 exactly two weeks ago- so this is really fresh from the oven. The principles provide recommendations on shareholder rights, executive remuneration, financial disclosure, the behaviour of institutional investors and the functioning of stock markets. Very interestingly, the preface to the Principles says exactly what I just mentioned a few minutes ago- that sound corporate governance is essential for promoting capital-market based financing. Not surprisingly therefore, there is a strong thread running throughout the new Principles about proper regulation of markets and institutions. And securities regulators actually play a role in CG in around 75% of the jurisdictions.

These new Corporate Governance Principles also make a link between the rights of shareholders and the legal and regulatory framework. They say that where the enforcement of the regulatory framework is weak, it might be good to strengthen the rights of shareholders such as by requiring a supermajority of shareholders for certain decisions.

The Principles recommend that institutional investors disclose their policies with respect to corporate governance. But that is not just about voting, it is also about direct contact and engagement. Almost half of jurisdictions today require or recommend institutional investors to disclose voting policies. One-third of jurisdictions also require or recommend the disclosure of actual voting records.

The OECD principles also mention the need for proper disclosure of material information- something that IOSCO principles already cover in quite some detail.

And lastly they cover the elements of knowledge, skills and expertise needed by Board members, including the problems of serving on too many Boards. Some jurisdictions have even limited the number of board positions that can be held or are mandating the publication of attendance records.

The role of external facilitators in Board evaluation, particularly in large companies, is also mentioned.

Developments in jurisdictions:

In April this year, the US SEC proposed Rules to require companies to disclose the relationship between executive pay and a company's financial performance. These would require a company to disclose executive pay and performance information for itself and companies in a peer group in a table and to tag the information in an interactive data format. In August, the SEC adopted a Rule for pay ratio disclosure that requires a public company to disclose the ratio of the compensation of its CEO to the median compensation of its employees.

In the EU, negotiations of the European Commission's draft Shareholder Rights Directive will be concluded in 2015. The draft directive includes an article, implemented on a 'comply or explain' basis, requiring institutional investors to develop an engagement policy outlining how they engage with the companies in which they invest.

Japan and Malaysia have also published Codes for institutional investors.

In IOSCO, recognizing the role of Corporate Governance especially in emerging markets, we have initiated a new project which will look at Board composition, accountability and responsibility; incentive structures and remuneration schemes and risk management, including for State Owned Enterprises.

Conclusion

I think the world is recognizing even more the importance of good corporate governance, especially in the context of market based financing of the economy and the growth in assets under management with institutional investors.

In my view, we are at a crossroads today: if we take the route of better self-discipline and corporate governance, we will be able to collectively contribute to restoring trust in the system, make the financial system work for the good of the real economy and generate growth and jobs.

Thank you for your attention.