

Welcome Remarks

Jane Diplock AO

Chairman,

New Zealand Securities Commission

Executive Committee, International Organization of Securities Commissions

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Introduction

Firstly I want to note how especially pleased I am to be back a second time at the GCC Regulators Summit and to have the opportunity to speak to you again. It is a particular pleasure to be here in Bahrain. Bahrain has been significant player in the region as a banking and financial services centre, and has become an important hub for Islamic finance. Under the guidance of the Central Bank of Bahrain, there is leadership at the IOSCO level as well. At our IOSCO meetings in Amsterdam only two weeks ago we were delighted to accept the Central Bank of Bahrain as a new signatory to the IOSCO Multilateral Memorandum of Understanding, and I'd like to commend His Excellency Rasheed Al-Maraj and his colleagues at the Central Bank for their foresight and leadership in this initiative.

I am delighted to participate again in this the second Gulf Cooperation Council Regulators Summit. The Summit is an extremely important initiative in the context of today's globalising capital markets. Islamic financial instruments are experiencing unprecedented global demand. And while Shari'a compliant mortgage schemes (musharaka), insurance (takaful), leasing (ijarah) and some retail products have been available for a number of years, it is the Islamic capital markets and particularly Islamic debt instruments that are showing extraordinary growth today. Late last year Deutsche Bank estimated that global sales of Islamic bonds or sukuk could reach US \$50billion in 2007, more than double the \$20billion issued in 2006 (which was itself a record). Another player, HSBC Holdings was almost as

optimistic in estimating the total could reach above \$50billion, and I have also heard the figure of \$70 billion in sales in 2007 quoted with a projection of doubling the size to \$140billion in three years. Whatever the figure actually is, this rapid growth in Islamic capital markets products over recent years is impressive and now an established part of the global capital markets.

From a regulators' perspective it is critically important our frameworks keep abreast of today's rapidly changing markets, in ways which work seamlessly to promote investor protection, transparency and efficiency, across borders. I thank and commend Complinet for their organisation of a forum of this calibre which I know will stimulate much valuable debate and allow for important exchanges of information as we all progress towards the ultimate goal of a consistent set of global regulatory standards in this rapidly globalising world.

Certainly today we often hear the financial markets described in robust terms: phrases such as "today's turbulent times", "the sub-prime crisis", "a run on liquidity", "extreme volatility" and so on characterise the descriptors of today's capital markets. I would agree that we live in exciting times. For the global capital markets there has been significant volatility, and as we saw with the stock market dives recently what happens in one part of the world, reverberates in others. Forums of this nature are very valuable in bringing us together to address issues confronting and challenge us as regulators, both globally and from a regional perspective.

In my update today I plan to give an overview and update on the work we do at IOSCO in the realm of the global capital markets. In doing so, I will also address one of the fundamental challenges that will face us regulators, as the capital markets become increasingly global.

Global Capital Markets

Let me start by setting the scene from a global perspective: Over the last decade capital markets have become increasingly global. More and more businesses are raising capital across national boundaries and investors are placing their money in other jurisdictions. We are also seeing growing consolidation and interdependence of markets in different national jurisdictions, such as the merger between New York Stock Exchange and Euronext to form

NYSE Euronext Inc, and the recent merger between Borsa Italia and the London Stock Exchange. We see Dubai Borse and Qatar Investment Authority each with shareholdings in the LSE, and taking positions in Nordic exchange operator, OMX.

Capital markets enable businesses to raise funds and thereby play an increasingly important part of economic development and growth. To attract capital investment from overseas and domestically, countries in all regions including the Middle East region, need regulatory frameworks that are internationally recognised and acceptable. Investors will not invest if they do not have confidence that the regulatory frameworks offer a fair, efficient and transparent playing field. If the cost of learning about the different regulatory frameworks is high, investors will be discouraged from investing across borders.

IOSCO

This is where IOSCO is assuming such an important and influential role in the regulation of capital markets. IOSCO sets global standards and leads the thinking on ways to address the challenges for securities regulators in today's global world.

IOSCO is the International Organization of Securities Commissions, and for the last three and a half years, I have had the privilege to Chair the Executive Committee - its governing body. IOSCO's vision is for markets which operate across the world on sound principles and standards, and regulators who can cooperate and exchange information across borders. It aims to ensure that markets are fair, efficient and transparent; to protect investors; and to reduce systemic risk.

IOSCO members regulate more than 90% of the world's securities markets – and it is the international standard setter for securities regulation. Might I say I'd like to invite any regulators who are not IOSCO members to consider joining. It is recognized as the global securities standard setter by the international financial community and in particular the Financial Stability Forum, the World Bank and the International Monetary Fund. It has developed 30 broad Principles for securities regulation and promotes the full implementation of these in the regulatory framework of every member jurisdiction.

IOSCO has also developed a Memorandum of Understanding among member regulators which enables them to share information to counter cross border fraud and this as I mentioned, Bahrain has just signed. As signatories the securities regulators can gather information from their counterparts overseas on cases they are investigating. There are now more than 59 jurisdictions from around the world which have either signed or committed to signing this memorandum, and IOSCO has set the bold objective of having all member jurisdictions signed up by 2010. I am very pleased to say that from this region Bahrain has just recently signed onto the IOSCO MOU. Leadership of this nature from the region is certainly most gratifying.

Recent repercussions from the US sub-prime market problems have reverberated around the world, and this is just one example of an area where IOSCO helps identify issues and contributes towards proposing workable solutions as required. At the IOSCO Technical Committee meeting which I attended in Tokyo in November last year, IOSCO announced that it would set up a task force to review issues arising from the recent market turbulence, and at our recent meeting two weeks ago in Amsterdam an early draft report was discussed at the Technical Meeting. Work is progressing so that an interim report can be submitted to the Financial Stability Forum in March and there will be a final report in May this year.

One question that is occupying IOSCO's thinking is the valuations of complex syndicated products; transparency of these products and the possible negative impacts of the US sub-prime crisis are relevant matters to us all. Global co-operation by regulators is vital as the spill over of these issues is felt from one jurisdiction to another. Other developments which IOSCO is watching closely include issues around rating agencies, private equity and hedge funds all of which play increasingly important roles in markets globally.

IOSCO is also interested in examining how compatible the IOSCO 30 Principles for securities regulation are with Islamic finance securities products and an informal working group is examining this issue led by the UK Financial Services Authority. The FSA is co-ordinating work on this issue but wants to ensure there is input from other jurisdictions for which Islamic products are imported. They will be approaching the Islamic Financial Services Board to work with them on this project but also welcome commitments from

IOSCO members in Islamic jurisdictions to contribute to this work. They will be presenting an update on the work in May at the IOSCO annual conference in Paris.

Over recent years IOSCO has gained prominent visibility and recognition as the global standards setting. IOSCO's voice is influential and increasingly valued by shareholders seeking to achieve better regulation, improved investor protection and confidence in the fairness and efficiency of global capital markets. This heightened standing has been accompanied as one might expect by higher expectations from the global financial community and policy maker community for clear messages from the global regulatory community. In this regard IOSCO has launched an important initiative to enhance its consultation with market stakeholders and established a framework for ongoing dialogue with industry.

Co-operation by Regulators

I mentioned earlier that I would discuss one of the fundamental challenges facing regulators today, and I would like to come onto that now. Historically the regulation and monitoring of markets has been undertaken by national governments, and in many parts of the world this remains true today. Many jurisdictions have different commercial and legal treatments and traditions, different rules around commerce and trade, and this poses challenges for securities regulators in the enforcement of rules where there is cross-border trade. Capital markets in today's global world are no longer bound by sovereign or national boundaries, while the regulating of these markets does remain the ambit of national –or regional -jurisdictions.

In addressing this challenge we regulators all agree that cooperation between regulators is at the core of any solution. What we at IOSCO have built is a fundamental set of principles, in other words an infrastructure for assessing another jurisdictions regulatory framework for equivalence, and to facilitate co-operation between regulators.

With the adoption of the IOSCO Principles for securities regulation, globally effective regulation around cross-border trade is facilitated in a seamless way and can provide a basis for mutual recognition of regulatory regimes.

What will be core to the effectiveness of arrangements based on mutual recognition is the level of trust in the capacity and willingness of the other regulators to enforce and cooperate. It requires a mutually acceptable legal framework, and a similar appetite to take action. Domestic regulators who wish to participate in mutual recognition arrangements will be compelled to look at their own regulatory arrangements and ensure that they have regulatory frameworks and enforcement capabilities in place that others would wish to mutually recognize.

In my view as a prerequisite, adherence to the IOSCO Principles and being a signatory to the IOSCO MOU should be the underpinning to mutual recognition considerations. If a jurisdiction in the future wants to participate in market developments of the future its domestic regulation and capacity will need to be world class.

Apart from some initiatives in European Union jurisdictions, and some promising steps by the US, a worldwide application of mutual recognition is still very far away. I note some very positive steps taken in the Asia Pacific region wherein the IOSCO Regional Committee has endorsed a facility for mutual recognition of Collective Investment Schemes.

And very much closer to my own part of the world I am pleased to note the work New Zealand and Australia have undertaken to introduce mutual recognition of securities offerings. This regime, to come into force very soon, will allow businesses to raise capital in Australia using New Zealand offer documents – and vice versa. Few other countries have lowered their borders in quite this way. Investors will also benefit from having a wider choice of investment opportunities.

I would add too, that as Chairman of the New Zealand Securities Commission it has been gratifying to see a tightening of New Zealand's securities regulatory framework over the last seven years which brings us now close to international best practice and a confident player in the global capital markets.

Conclusion

In concluding I would just like to re-iterate that in the realm of global capital markets and cross border trade we do indeed live in fascinating and turbulent times. With the growth in

Islamic financial securities products the picture is further enriched. In such challenging times the need for strong regulatory co-operation underpinned by high standards globally is now more vital than ever. This forum provides an excellent opportunity for addressing the challenges and I look forward to the discussions throughout the Summit.