



FINAL COMMUNIQUÉ OF THE 25TH ANNUAL CONFERENCE OF THE INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS (IOSCO)

The world's securities and futures regulators and other members of the international financial community met in Sydney from 14 to 19 May 2000, on the occasion of the XXVth Annual Conference of the International Organisation of Securities Commissions (IOSCO). The Australian Securities and Investments Commission, hosts of this year's event, provided a warm and friendly welcome to more than 500 participants from 90 countries.

The conference, themed "Global Markets – Global Regulation," provided an opportunity for participants to discuss the regulatory challenges posed by today's rapidly evolving markets, including changing market structures, market alliances, the new economy and technological advances. IOSCO's activities and work program continue to address these challenges in a concerted and consultative manner.

The implementation of the Objectives and Principles of Securities Regulation, IOSCO's active participation in global initiatives such as the Financial Stability Forum and the Joint Forum, its international training programs, and detailed work on specific technical issues all contribute to strengthening investor protection, market confidence and financial stability worldwide.

The Hon. Peter Costello MP, Treasurer of the Commonwealth of Australia, officially opened the Conference by welcoming all participants to Australia. He referred to the need to pursue best practice regulatory models even in times of booming markets. "New Economy, Old Values" was the theme of his speech, referring to the need to continue to strive for rule of law, honesty and fairness in the conduct of financial activities. Best practice in regulation and strong institutions are vital to ensuring the effective operation of the world's financial markets. Mr. Alan Cameron, Chairman of ASIC said "This Conference is being held at a time of increased market volatility, a large number of mergers and alliances among market operators, and a dramatic increase in the use of the Internet for financial services. The focus is clearly on whether, what and how to regulate, in these challenging times."

1. IASC Core Standards

As part of ongoing efforts to facilitate cross-border offerings and listings by multinational issuers, IOSCO has evaluated 30 standards issued by the International Accounting Standards Committee (IASC). The Presidents Committee approved a resolution recommending that IOSCO members permit the use of 30 IASC standards for such cross-

border offerings and listings, as supplemented by reconciliation, disclosure and interpretation where necessary to address outstanding substantive issues at a national or regional level.

IOSCO encouraged the IASC to continue to develop its body of accounting standards and expressed its desire to continue to work with the IASC. IOSCO congratulates and thanks the IASC for its work and contribution to raising the quality of financial reporting worldwide.

For more information, please see the [IOSCO press release issued May 17, 2000](#).

2. Internet Surf Day

The IOSCO Technical Committee conducted an International Internet Surf Day on March 28, 2000 aimed at increasing investor protection and market confidence. Twenty-one securities and futures regulators from eighteen countries coordinated their efforts to identify securities and futures fraud on the Internet. Regulators concentrated on fraudulent solicitation of investors, manipulation, the circulation of false or misleading information and insider trading. During the Surf Day, approximately 220 individuals from the participating authorities visited nearly 10,000 sites, totalling nearly 1000 hours of global participation. Of these sites, more than 1,000 were identified for follow-up review, including over 250 sites that involved cross-border activity. Enforcement action by relevant national regulators, working cooperatively where appropriate, could result.

For more information, please see the [IOSCO press release issued May 16, 2000](#).

3. The New Economy

Technological changes have empowered the individual investor and revamped the structure of securities markets. The need to identify market and investment risks, to disclose these risks to investors, and for market professionals to properly discharge their responsibilities has never been greater. In recognition of these developments, the IOSCO Technical Committee issued a [Bulletin on Investor Protection in the New Economy](#).

The Bulletin highlights four areas of concern: (i) the initial public offering process; (ii) the valuation of high tech companies, including accounting and financial reporting issues; (iii) the effects of short-term trading strategies on investors' risks and expectations; and (iv) preserving investor confidence. While these are not new issues, the Technical Committee believes they are of heightened importance in the New Economy, where many investors have entered the securities markets for the first time, and others have intensified their investment activity.

IOSCO will continue to examine specific issues related to investor protection in the New Economy, with input from members of both the Technical and Emerging Markets Committees.

For more information, please see the IOSCO press release issued May 18, 2000.

4. Demutualization of Exchanges

Many exchanges are being transformed from not-for-profit, mutual or cooperative entities to for-profit shareholder owned corporations – a process known as demutualization. IOSCO is considering the main issues arising from this transformation, namely:

- What conflicts of interest are created or increased where a for-profit entity also performs regulatory functions?
- Is there a need for special corporate governance arrangements and rules regarding share ownership to protect the public interest?
- Will a for-profit exchange be run with due regard for its financial viability and with adequate funding allocated to regulatory functions?

IOSCO members are discussing these issues with a view towards sharing their experiences.

5. Implementation of Objectives and Principles

In September 1998 IOSCO issued the [Objectives and Principles of Securities Regulation](#). This document sets out 30 principles of securities regulation, based on three objectives: the protection of investors, ensuring that markets are fair, efficient and transparent, and the reduction of systemic risk. Pursuing its strong commitment to the establishment and maintenance of consistently high regulatory standards, IOSCO is committed to ensuring the implementation of these Principles. Considerable progress has been made in this implementation program. Three self-assessment surveys on implementation have been completed by IOSCO members, and three further surveys should be completed by the third quarter of 2000. This will complete the self-assessment phase of the implementation project. IOSCO continues to consult with the International Financial Institutions (IFIs) on their use of the Objectives and Principles, and is currently considering a peer review project, to be conducted on a regional basis in cooperation with the IFIs and the regional development banks.

6. Investment Management

Millions of investors choose to invest in securities through the vehicle of collective investment schemes (CIS), also known as mutual funds or investment trusts. Investors can have confidence in the integrity of these schemes as a means for increasing their wealth and managing their investments, provided appropriate regulatory mechanisms are in place, including good governance and accountability within a CIS, and the appropriate management of conflicts of interest.

The Technical Committee has issued two reports that focus on these issues. The first, entitled "[Summary of Responses to the Questionnaire on Principles and Best Practice](#)

[Standards on Infrastructure for Decision Making for CIS Operators](#)," provides a compendium of regulatory and other measures in place in jurisdictions with larger CIS industries to ensure appropriate decision making within a CIS.

The second report, "[Conflicts of Interests of CIS Operators](#)", deals in more detail with the topic of conflicts between the interests of the CIS operator and the interests of the CIS investors. The paper identifies the types of situations in which conflicts of interest may arise, especially in transactions involving related parties. Using case studies as illustrations, it also identifies regulatory arrangements adopted to address the risks of such conflicts.

The Emerging Markets Committee (EMC) is currently assessing the adherence of EMC jurisdictions to standards on Performance Presentation issued by professional bodies.

7. Credit Risk

Credit risk has traditionally been a concern primarily for bankers and credit rating analysts. However, this risk also arises from derivatives activities, and has become a source of heightened concern for securities firms. The Technical Committee has published a report on "[The Management of Credit Risks by Securities Firms and Recommendations to Firms and Regulators](#)". This report sets out sources of credit risk and identifies approaches to monitoring and managing such risks through netting and the use of collateral.

8. Operational Risk

In the area of risk management, the Technical Committee continues its ongoing project to examine the appropriate treatment of operational risk in securities firms, consulting with industry practitioners and noting the work of the Basel Committee on Banking Supervision (BCBS) in this area.

9. Highly Leveraged Institutions

Some members of the Technical Committee are currently working with members of the BCBS on a joint examination of the extent to which firms follow sound practices in their dealings with highly leveraged institutions (HLI's). IOSCO believes that the continued evolution and application of sound practices in the hedge fund industry remains of the highest importance. In this context, IOSCO welcomes the work of the Global Documentation Steering Committee in ensuring that regulated firms establish a sound and robust basis for carrying out their dealings with HLIs.

10. Securities Settlement Systems

IOSCO and the CPSS are currently engaged in a joint project on securities settlement systems. This joint project aims to develop recommendations for domestic securities

settlement systems, including recommendations addressing additional issues raised by cross border settlement activity.

11. Auditing Standards

The Technical Committee continues to review and comment on relevant exposure drafts published by the International Auditing Practices Committee (IAPC) of the International Federation of Accountants (IFAC). The aim is to provide the views of securities regulators on the development of new or revised international standards on auditing, as part of the effort to improve the quality of financial reporting and to facilitate multinational offerings. In the next year, the Technical Committee will focus greater attention on auditing issues, and expects to continue its interaction with IFAC and the IAPC.

12. Disclosure Projects

IOSCO issued the [International Disclosure Standards for Cross Border Offers and Initial Listings \(IDSs\)](#) in 1998. In the last year, the Technical Committee surveyed its members to determine what actions they have taken to implement the IDSs. Almost without exception, members reported that either they currently accept offering or listing documents prepared in accordance with the IDSs from foreign companies or they have taken steps to be in a position to do so at some point in 2000. The Technical Committee has published its report on implementation of the IDSs.

13. Volatility in Emerging Markets

At its November 1999 meeting in New Delhi, the EMC published a report entitled "[Causes, Effects and Regulatory Implications of Financial and Economic Turbulence in Emerging Markets](#)". This report follows the publication of an interim report of the same title that was endorsed by the EMC in 1998.

The report examines issues raised by this economic turbulence from the viewpoint of capital markets regulation and discusses, among other things, the changing regulatory structures, systemic risk management and the relevance of financial markets within the broader context of macroeconomic management and development. The report draws on a survey of emerging markets to assess how securities markets around the world have interacted with each other and with other financial markets.

14. Securities Lending Transactions

IOSCO and the Committee for Payment and Settlement Systems (CPSS) published a report entitled "[Securities Lending Transactions: Market Development and Implications](#)" in July 1999. The report is intended to develop a clearer understanding of the development of securities lending and its implications for securities regulators and central banks, in particular in its implications for securities clearance and settlement systems.

15. Emerging Market Bond Markets

The EMC is currently studying the framework necessary for the development of well-functioning domestic bond markets in emerging markets. This mandate will identify current impediments to bond market development within emerging markets.

16. Market Manipulation

The Technical Committee has published a "[Report on Market Manipulation](#)," describing the nature of manipulation in the various IOSCO member jurisdictions and identifying measures that can be useful and effective in the detection, investigation and prosecution of manipulative activity. The report encourages jurisdictions to have adequate authority for such work and to share relevant information with foreign authorities.

17. Internet Task Force

Internet use has changed and expanded considerably since the publication of the 1998 IOSCO Report "[Securities Activity on the Internet](#)". Building on the recommendations in that Report, IOSCO's Internet Task Force is currently developing further guidance on regulation and surveillance of Internet securities activity. The issues being discussed include new Internet developments, investor protection, web site contents, disclosure, information sharing, practical implications of jurisdictional aspects, surveillance and enforcement.

18. Self-Regulatory Organisation Consultative Committee

The SRO Consultative Committee issued a report entitled "[Model for Effective Self-Regulation](#)", which discusses the role of self-regulatory organisations (SROs) and promotes their use in securities regulatory systems. A second report, entitled "Promoting Fair and Transparent Regulation," has been submitted to the Executive Committee with a recommendation that it be studied by the Technical and Emerging Market Committees.

19. Training Initiatives

Seminars and training programs are essential elements of the implementation of the IOSCO Objectives and Principles of Securities Regulation, and contribute significantly to the strengthening of securities and futures regulation.

IOSCO conducts a wide variety of seminars and training programs throughout the year. These programs take place throughout all of the regions represented in the Organisation. They benefit from the participation of IOSCO's regional standing committees, drawing upon the expertise of their staff. Since the last Annual Conference IOSCO programs have provided training for hundreds of regulators.

19.1 Seminar Training Program

The flagship IOSCO Seminar Training Program (STP) welcomed 64 securities regulators from 38 jurisdictions to Montreal in 1999. The 1999 STP addressed such key issues as Principles for Issuers, Corporate Governance, Self-regulation, and Investor Education. The program was organised with the support of IOSCO members and in collaboration with the World Bank.

19.2 APRC Enforcement Institute

The General Secretariat, in collaboration with the APEC Securities Regulatory Training Secretariat and the World Bank, organised the 1999 APRC Enforcement Institute, held in Seoul 29 November-3 December. This program, the first of its kind in the Asia-Pacific region, was hosted by the Financial Supervisory Service, Korea (FSS). 22 participants and 9 seminar leaders from 18 countries took part in a comprehensive seminar on issues of market surveillance, investigation, recourses, and international cooperation.

19.3 IOSCO Contribution to the Toronto Centre

The General Secretariat has been instrumental in the planning and execution of the Securities Market Regulatory Program, organised by the Toronto International Leadership Centre for Financial Sector Supervision (Toronto Centre). The Program provides a forum for current and former senior regulators to share their experience and expertise in leadership and management issues.

20. EMC Advisory Board

The EMC has established a new Advisory Board. The responsibilities of the Board include:

1. Advising on mandates and projects of the EMC Working Groups;
2. Acting as an advisory group for all matters relating to the EMC within IOSCO.

The Advisory Board is currently composed of EMC members from the following jurisdictions: Argentina, Brazil, India, Jordan, Kenya, Malaysia, Nigeria, Pakistan, Poland, South Africa, Thailand and Turkey.

21. Election of the members of the Executive Committee and designation of the Chairmen and Vice-Chairmen of the various Committees

Mr. David A. Brown, Chairman of the Ontario Securities Commission, was elected Chairman of the Technical Committee and Mr. A.W.H. Docters van Leeuwen, Chairman of the Stichting Toezicht Effectenverkeer [The Netherlands], was elected Vice-Chairman.

Mr. Devendra Raj Mehta, Chairman of the Securities and Exchange Board of India was elected Chairman of the Emerging Markets Committee and Mr. Prasarn Trairatvorakul,

Secretary General of the Office of the Securities and Exchange Commission [Thailand], was elected Vice-Chairman.

As a result of elections that took place during the Conference, the Executive Committee is now composed of the following members:

- the Chairmen of the Technical Committee and the Emerging Markets Committee: Mr. David A. Brown, Chairman of the Ontario Securities Commission, and Mr. Devendra Raj Mehta, Chairman of the Securities and Exchange Board of India.;
- the Chairmen of the four Regional Committees: Mr. Ashraf Shamseldin, Deputy Chairman of the Capital Market Authority [Egypt] (Africa/Middle-East), Mr. Ali Abdul Kadir, Chairman of the Securities Commission [Malaysia] (Asia-Pacific), Prof. Stavros Thomadakis, Chairman of the Capital Market Commission [Greece] (European), and Mr. Enrique Diaz Ortega, Chairman of the Comisión Nacional Supervisora de Empresas y Valores [Peru] (Interamerican);
- nine members elected by the Presidents' Committee: Australian Securities and Investments Commission, Comissão de Valores Mobiliários [Brazil], Commission des Opérations de Bourse [France], Bundesaufsichtsamt für den Wertpapierhandel (BAWe) [Germany], Commissione Nazionale per le Società e la Borsa [Italy], Financial System Planning Bureau of the Ministry of Finance [Japan], Financial Services Board [South Africa], Financial Services Authority [United Kingdom], and United States Securities and Exchange Commission;
- our members elected by the Regional Committees: The Capital Markets Authority [Kenya], the China Securities Regulatory Commission of the People's Republic of China, the Comissão do Mercado de Valores Mobiliários [Portugal], and the Comisión Nacional de Valores [Argentina].

All of the above appointments and elected positions are for a two year term.

22. Conference Panels

Panel discussions were held on a variety of issues of interest to both regulators and practitioners:

- Global Markets, Global Regulation

Leading regulators from around the world gave their views on the impact of rapid globalisation of financial markets and the future of domestic regulation.

- Empowering Investors in an Electronic Age

This panel focused on the impact of electronic commerce on investor protection, the activist role taken by retail investors in some countries, the challenges for regulators in restoring investor confidence following the Asian financial crisis, and the changing role of large institutional investors in improving standards of corporate governance.

- The Regulator

Many countries around the world have recently changed their regulatory structure. Members of this panel discussed how differences in regulatory structure affect the way in which regulators operate in the rapidly changing market for financial services.

- Effective Regulation

This panel discussed alternative regulatory strategies and means by which the effectiveness of regulation can be measured. Regulators and compliance professionals added their views on the special issues arising in the regulation of financial markets.

- Implementing Global Regulatory Principles and Standards

This panel outlined the work of the IOSCO Committee on the Implementation of Standards and the Financial Stability Forum task force regarding global standards, the latest in global auditing and accounting standards, and views on promoting better practices in emerging markets.

- Markets

Market operators, self-regulatory organisations and regulators discussed effective regulation in the context of the financial markets of today, with phenomena such as electronic trading across borders impacting on markets which are now often operated for profit.

- Self-Regulatory Organisations

Following presentations on “The Value of Self-Regulation” and the results of a study on international proficiency standards, the panel discussed current SRO issues.

23. Admission of New Members

During the Conference, IOSCO admitted 3 new ordinary members: the Securities Commission of the Federation of Bosnia and Herzegovina, the Securities Regulatory Commission of Ghana, and the Capital Markets Authority of Uganda.

IOSCO has also admitted three new affiliate members: the International Monetary Fund, the Athens Stock Exchange, and KOSDAQ (Korea). As a result of these new admissions, the membership of IOSCO now stands at 165.

24. Future Conferences

The Organisation will hold its next Annual Conference in Stockholm, 23-29 June 2001. The 2002 Conference will be held in Istanbul, and the 2003 Conference, in Seoul.