



The Importance of Good Regulation

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Agenda

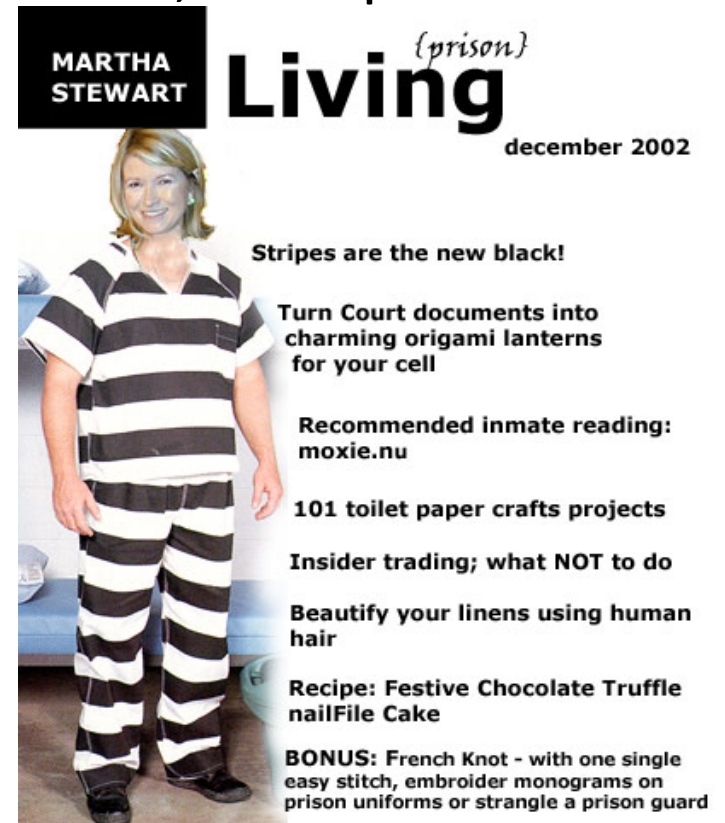
1. Why does regulation matter?
2. How does society see us, regulators?
3. How do regulators approach you, market participants?
4. Global markets and regulation: IOSCO's role

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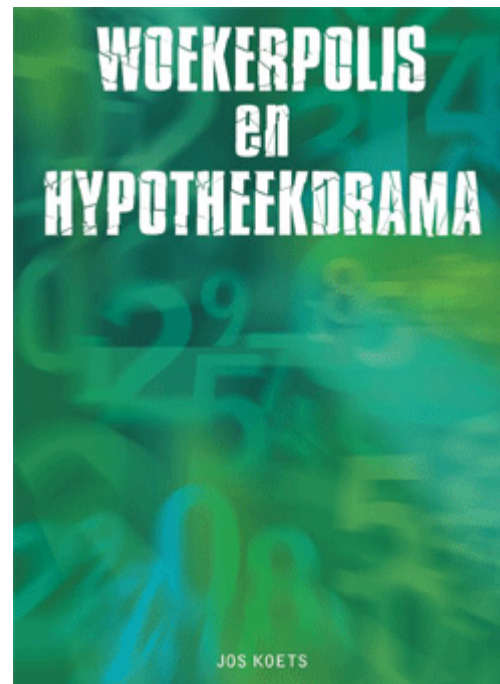
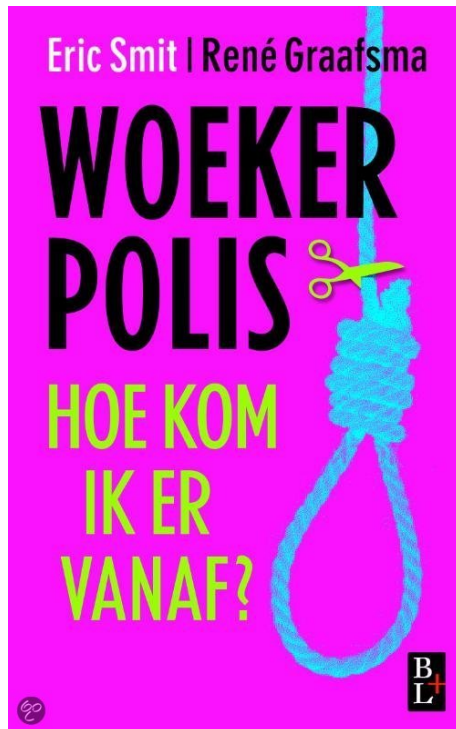
Why does regulation matter?

If you perform harmful or illegal activities, rules provide the basis for punitive action:



Why does regulation matter?

...Or a national scandal...with billions of compensation, class actions, and more rules and regulatory powers:



Why does regulation matter?

Interested stakeholders:

- Firms
- Participants
- Investors
- The State
- Politicians
- Regulators
- Press
- All
- Capital at low cost, reputation
- Level playing field, no illegal players
- Understand and get good products
- Execution of laws, budget
- No scandals, cost
- Salary, social esteem
- Scandals, sleeping regulator
- It's our economy

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How does society see us, regulators?















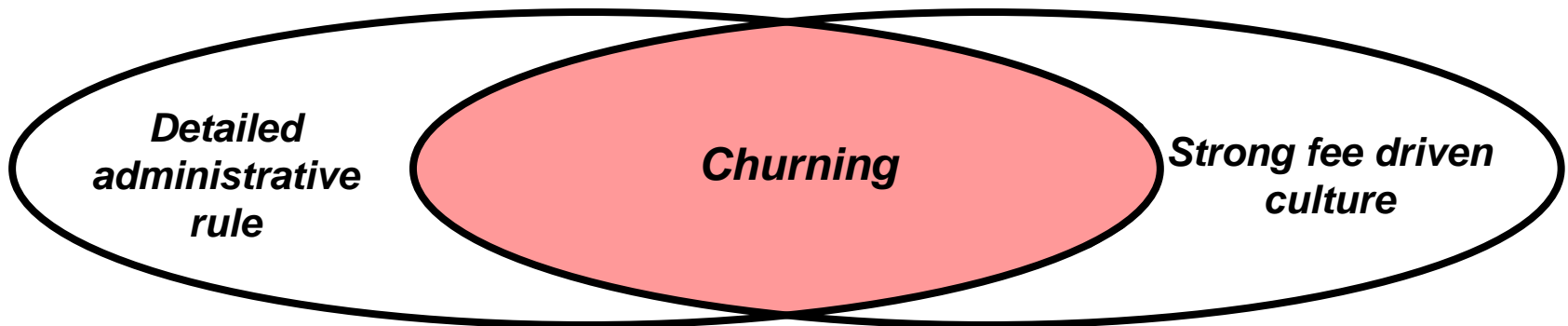
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Regulatory focus

Illegal behavior

Harmful behavior



Advantages and disadvantages of focus on
illegal behavior

- + Law is precise basis
- + Accountability relativamente simple in short run
- Law is slow and falible instrument
- Do you attack big problems?

Advantages and disadvantages of focus on
harmful behavior

- + Regulacion focused on fixing big problems
- + Better accountability in long run
- What are the applicable rules?
- Risk of getting too far away from the law

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IO스코' s Mission

IO스코 is the global standard setter for securities regulators, with members from 120 jurisdictions

It exists:

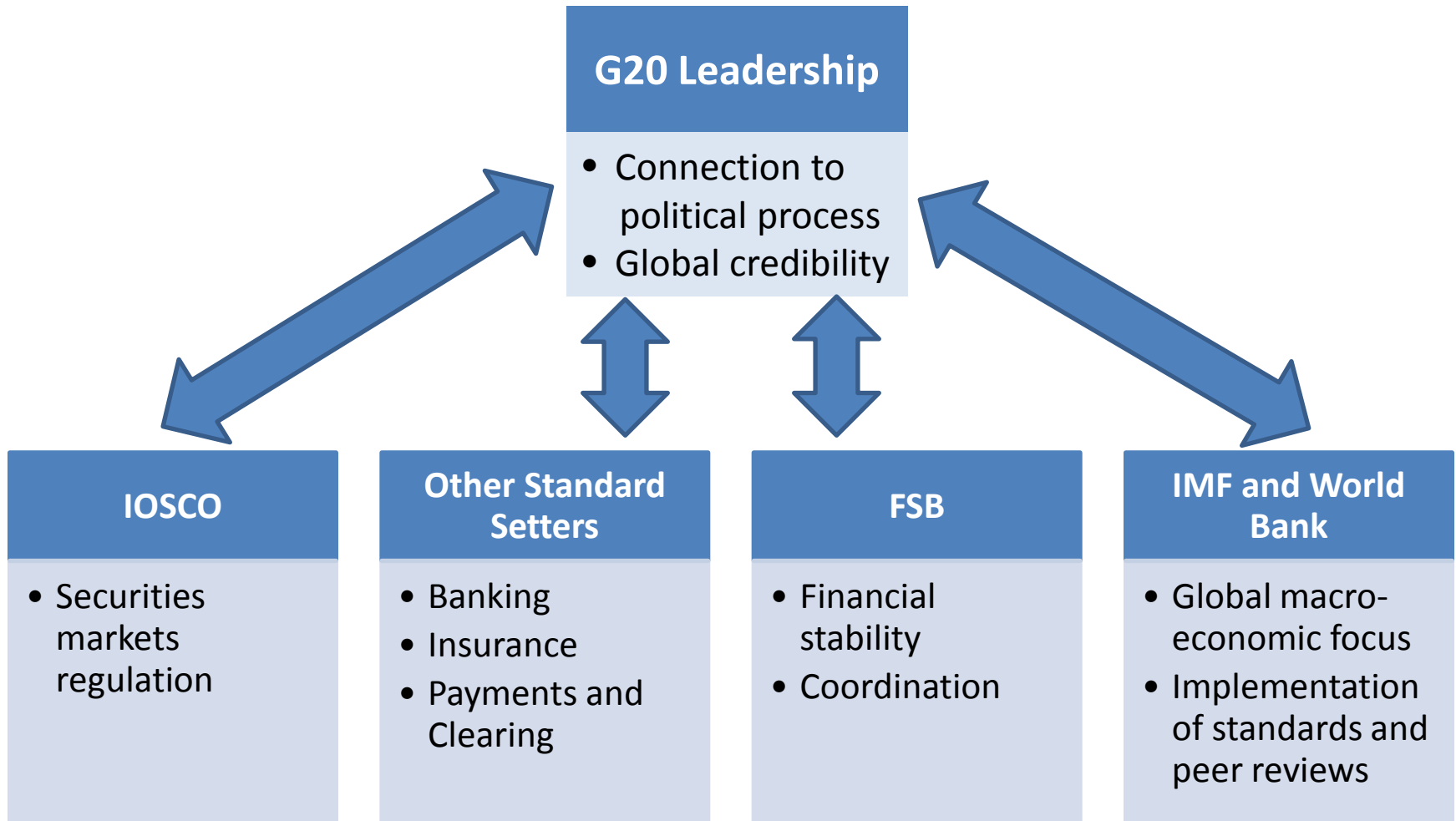
- To protect investors
- To ensure that markets are fair, efficient and transparent
- To reduce systemic risk

IOSCO' s Mission (2)

IOSCO members agree

- To cooperate in developing, implementing and promoting adherence to *internationally recognized and consistent standards of regulation, oversight and enforcement* in order to protect investors, maintain fair, efficient and transparent markets, and seek to address systemic risk;
- *To enhance investor protection and promote investor confidence in the integrity of securities markets*, through strengthened information exchange and cooperation in enforcement against misconduct and in supervision of markets and market intermediaries; and
- To exchange information at both global and regional levels on their respective experiences in order to *assist the development of markets*, strengthen market infrastructure and implement appropriate regulation.

IOSCO in the global architecture of the reform agenda



IOSCO work process

Prioritization
and
inclusiveness

Prioritization
and
inclusiveness



Feedback

Strategic role of Research in IOSCO

Research should:

- Signal timely big risks
- Provide practical ideas for solutions
- Help targeting the strategic and current course of supervisory and policy agendas

And, as a result, helps making regulation based on evidence and timely.

Research provides arguments to the stakeholders why regulation is needed.

IOSCO Risk Outlook Main Risks

1. The *return of leverage* in products and investments can *destabilize* markets when interest rates go up.
2. *Capital flow volatility* in EM takes place in better developed markets of today, but is *harming economic growth already*. IOSCO will take a pro-active role in developing market structures.
3. Big changes in derivatives markets *move risks around but don't take them away*. Pooling them in CCPs make CCPs *too important to fail*.
4. At the moment *we are unable to assess the impact of the changes and challenges of the collateral space* and we need much more disclosure.
5. *Governance of big financial firms* is at risk. Firms cannot afford weak risk management, compliance and internal control.

More Risks

1. *Cyber attacks* getting more sophisticated and become a threat to the functioning of critical infrastructure.
2. *Crowdfunding* grows exponentially. Tremendous opportunities for small and medium enterprises, many risks for investors.
3. *Corporate bond markets* exuberance in issuance, low rates, thin secondary market liquidity. Risks to investors and challenges to improve capital formation role even further.