



## Opening Ceremony

*Mr. Andrew Sheng*

Chairman of the IOSCO Technical Committee  
Chairman of the Hong Kong Securities and Futures  
Commission

*6 April 2005*

30<sup>th</sup> Annual Conference of  
The International Organization of  
Securities Commissions  
(IOSCO)

6<sup>th</sup> April 2005  
Colombo, Sri Lanka

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Speech by Andrew Sheng

Chairman of the IOSCO Technical Committee  
And  
Chairman of Securities and Futures Commission of Hong Kong

The Hon. Minister of Finance, Dr. Sarath Amunugama,  
Dr. Dayanath Jayasuriya, Chairman of the Securities and Exchange  
Commission of Sri Lanka,  
Ms. Jane Diplock, Chairman of the Executive Committee,  
Dr. Dogan Cansizlar Chairman of the Emerging Markets Committee,  
Secretary-General, Philippe Richard,  
Distinguished guests,  
Ladies and Gentlemen.

We are greatly honoured to be present at this 30<sup>th</sup> Annual Conference of IOSCO here in the beautiful and historic city of Colombo. We must also express our gratitude to Chairman Dayanath Jayasuriya for his warm welcome and hospitality. Your prompt announcement that Sri Lanka would proceed with its plan in hosting this conference so soon after the tragic tsunami deserves our admiration and respect for the confidence and determination of the Sri Lankan people to re-build and show the world your resilience and commitment to development. We salute you for your courage and fortitude.

On a personal note, it gives me great pleasure to enter into this Letter of Intent to work together with the SEC of Sri Lanka, in the spirit of cooperation fostered by IOSCO, towards facilitating the cross-border trading of financial products between Hong Kong and Sri Lanka. I believe that it is through bilateral projects such as this that regional markets can gradually achieve greater integration through the convergence of standards, to the mutual benefit of our markets and those who invest in them.

We want particularly to thank you for your welcome to this beautiful island. As the famous resident of Sri Lanka, Arthur C Clarke said:

“The island of Ceylon is a small universe; it contains many variations of culture, scenery, and climate as some countries a dozen times its size. What you get from it depends on what you bring...if you are interested in people, history, nature, and art – the things that *really* matter – you may find, as I have, that a lifetime is not enough.”

The Annual Meetings are a good time to reflect on what *really* matters for IOSCO. This 30<sup>th</sup> Anniversary marks a journey of many milestones. In the last year alone, we had three important meetings in three important capitals, from Cairo to Capetown and now to Colombo.

IOSCO has advanced from a small gathering of similar-minded regulators to a recognized world standard setter of securities regulation. We have come a long way from the Core Principles, which were

adopted in the historic 1998 Nairobi meeting. In this meeting, we have adopted the resolutions that would take the implementation of these Principles further towards strengthened cooperation for healthy and robust development of our securities markets.

Allow me to use this occasion to reflect on the road that IOSCO has travelled. Few of us could envisage that since 1998, we could have transformed the securities landscape so profoundly.

- First, through sheer hard work and excellent cooperation, we have made a significant impact on accounting and auditing standards and the oversight of the auditing profession. The creation of the PIOB is a landmark achievement.
- Second, we have issued the International Disclosure Standards for Cross-border Offerings and Initial Listings by Foreign Issuers (1998), and Principles for Ongoing Disclosure and Material Development Reporting by Listed Entities (2002);
- Third, two major landmarks that would facilitate better cooperation in the enforcement area are the 2002 Multilateral Memorandum of Understanding (MMOU) that was led by Michel Prada, and the Principles for Client Identification and Beneficial Ownership for the Securities Industry (CIBO) led by Jonathan Davis.
- Fourth, in response to market concerns, we looked at Analyst Conflicts of Interest and the great work on Code of Conduct Fundamentals for Credit Rating Agencies led by Roel Campos. More recently, the Report on Strengthening Capital Markets Against Financial Fraud was well received by the Financial Stability Forum. Thanks are due to the great work of Roel Campos and Lamberto Cardia.
- Finally, IOSCO's standing committees and working groups have contributed significantly to market studies, ranging from Islamic Capital Markets to Transparency of Bond Markets. The work with the Joint Forum and Committee on Payment Systems (CPSS) has introduced new standards in areas that concern us all. We must acknowledge and thank all the unsung members who helped build our reputation as a standard setter of quality and respect.

All these achievements would not have been possible without the strong sense of ownership and commitment that all IOSCO members have demonstrated in the face of huge market expectations that securities regulators must respond to the financial scandals that have affected markets around the world.

I therefore would like to spend a few minutes on our standards, their meaning and the way forward.

First, standards and codes are only a means to an end, not an end in themselves. Standards and codes help us benchmark our performance and through transparency, make our objectives and achievements more accountable. The ultimate objective of good standards and codes is to raise the quality of life for our people. In the securities markets, it is about having transparent, efficient and fair markets that help promote economic development. We should not lose sight of that primary objective.

Second, standards and codes cannot be forced on anyone. We are members of IOSCO because we want to be members of a global community of securities regulators with common values and principles. We have ownership. We understand that adopting international standards is ultimately useful for our own market development. In the Asia-Pacific region, for example, many regional friends recognized that in an increasingly globalized world we need to have regional and international cooperation in order to do our jobs properly. Cross-border market misconduct harms our markets, and the only way we can tackle this is through cross-border cooperation using international standards.

Third, standards and codes are only as good as their implementation. Last year, in Amman, we resolved to make implementation of the IOSCO Principles a priority. Since then, the Technical Committee has worked hard with the Executive Committee and Emerging Markets Committee to fulfil that resolution. I know that the Regional Committees have also risen to the challenge by establishing subcommittees of Chairs to focus on the key challenges for IOSCO in the years ahead. These would include implementation, training and capacity building and getting everyone to sign on to the Multilateral MOU.

Fourth, we should not underestimate the difficulties that lie ahead. Nor should we underestimate the complexity of the political sensitivities and practical difficulties involved.

The market, like any other social institution, is not built overnight. Indeed, the reason why the market is so successful is that it is not the product of a single designer [which is why central planning failed], but because it is the result of the daily action and decisions of market participants, of which securities regulators play an important role. Markets are all about the behaviour of market participants, and behaviour is influenced by incentives. If it pays to be bad, participants will misbehave. Which is why efficient markets need clear standards

and norms of behaviour, plus the enforcement to ensure that bad behaviour is punished and good behaviour is rewarded.

We all know the effects of bad regulations and bad policies. The market simply adapts and moves around these rules and policies. The market prices the risks accordingly or simply moves to another jurisdiction.

The reason why recent financial sector reforms around the world have met considerable headwinds, fatigue and even rollback, despite lessons of financial crises and the exhortations and assistance from the IFIs, is because we have not understood that our resources are limited and that it takes time for market behaviour to change.

This is why we undertook last year a strategic review of IOSCO priorities, which was tabled before the Presidents' Committee in Colombo. We recognize first and foremost that cooperation and ownership is the key to successful implementation of IOSCO standards. Recognizing that changing laws and rules will take time, we feel that time should be given for members to sign on to our benchmark MMOU.

But more important, it is very heartening to note that members of the Technical Committee and other members have volunteered to provide technical expertise and resources to help our members' self-assessment and implementation work. We are also actively working with the IFIs to see how we can work together to raise even more resources for implementation.

The other part of the IOSCO Strategic Plan is greater outreach. I am very pleased that members of the SROCC are here to participate in this Annual Meeting. We have consulted the market to clarify our Consultation Policy in order to be more transparent in our work. We are upgrading our level of cooperation with the SROs, and working in partnership with the industry, for example, in investor education. We believe strongly that working together, rather than working against each other, is a more fruitful way forward.

Another exercise in cooperation with other standard setters is the establishment of a Task Force to interface with the OECD to work on corporate governance issues. Here, the Technical Committee will also draw on the great work of the Emerging Markets Committee's Working Group on the same subject.

To sum up, I want to thank everyone for working so hard to ensure that as an institution, IOSCO has visibly, decisively and demonstrably delivered on the expectations of the international community. This can be seen by the positive response of the Financial Stability Forum recently to our work.

Though the task is monumental, I am comforted by the fact that here in Colombo, there is an enormous storehouse of goodwill among members to help each other in the way forward.

Let us take a moment to pay tribute to David Brown, a former Chairman of the Technical Committee, who will retire as Chairman of the Ontario Securities Commission at the end of June. The work of IOSCO has benefited immensely from David's vast and wide-ranging experience in the legal, accounting and operational aspects of securities regulation. We take comfort in the fact that we will continue to work with you, David, in your capacity as member of the newly formed Public Interest Oversight Board, in which capacity you will continue to enhance the quality of accounting and auditing standards.

We must also acknowledge the great contribution and leadership of Jeffrey van Rooyen who will shortly step down as Chairman of the Financial Service Board of South Africa and deputy Chair of the Executive Committee. Under your guidance, and through implementation of the IOSCO Principles, the market in South Africa has flourished and market participants are treated alike with fairness and proportionality.

Last year in Amman, I ended with a quote from the prophet Mohamed on Islamic markets. In Colombo, I thought I should quote from Buddha, whose influence on Sri Lanka and the world is equally profound.

In this beautiful isle of serendipity, we are always making discoveries, by accident or sagacity, of things that we are not always in quest of. But if we persevere, as all the great religious prophets persevere, we shall reach our goals. Buddha said, "An idea that is developed and put into action is more important than an idea that exists only as an idea."

The idea of IOSCO and strong, robust markets that will help develop our economies to enrich our children and our children's children can only be a reality if we put this idea into action. I commend the Presidents' Committee for passing the resolutions that will put our ideas into action.

I want to thank once again the people of Sri Lanka and our host, the Securities and Exchange Commission of Sri Lanka for making us enjoy, appreciate and savour the wondrous jewel that is Sri Lanka.

Thank you.