OICV-IOSCO

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Opening Ceremony

Mr. Shri P. Chidambaram

Finance Minister, India

11 April 2007

32^{nd} Annual Conference of International Organisation of Securities Commissions

Address by

Shri P. Chidambaram

Finance Minister, India

April 11, 2007

Ms. Jane Diplock – Chair, Executive Committee - IOSCO

Mr. Michel Prada – Chair – IOSCO Technical Committee

Mr. M. Damodaran – Chair of the Emerging Markets Committee – IOSCO

Mr. Phillippe Richard – Secretary General - IOSCO

Ladies and Gentlemen,

I am happy that the Securities and Exchange Board of India has the honour to host the 32^{nd} Annual Conference of the International Organisation of Securities Commissions (IOSCO). On behalf of the Government of India, may I extend a warm welcome to the delegates to this conference? May I also congratulate SEBI, and its Chairman, for the excellent arrangements made for the conference?

2. Many years ago, I was advised that, at a dinner, one should speak well but not too wisely and eat wisely but not too well. A conference of capital market regulators is more challenging than a sumptuous dinner. It is the only market that I know that will react to the arch of an eyebrow or a meaningful cough. I wonder if I should speak to you wisely or well or do neither. Nevertheless, I shall do my best.

3. The protection of the interests of the investors and the promotion and development of the securities market are

inseparable twin objectives. These twin objectives are paramount for the securities market regulator; all other objectives are secondary and subordinate to these two. Other stakeholders – while they may be driven by the profit motive – also have the obligation to secure these twin objectives.

4. No securities market is an island. Thanks to global flows of capital, the working of the capital market in a country – especially any precipitous rise or fall – has an effect upon other capital markets in the region as well as elsewhere in the world. Good regulation, therefore, is no longer a mere national 'public good'; it has a global dimension and it must be regarded as a global 'public good'.

Securities Market in India

5. The securities market regulator in India is a relatively young institution. It owes its existence to the Securities and Exchange Board of India Act, 1992. In the course of the last 15 years, SEBI has acquired an enviable reputation as an independent and effective regulator. Several measures have been taken by SEBI to make the securities market in India better regulated, more efficient and generally safer. Regulations have been put in place in respect of intermediaries, trading mechanism, settlement cycles, risk management, derivative trading and takeover of companies, etc. The regulator has put in place a well-designed disclosure-based regulatory regime. Information technology is extensively used in the securities market. The most advanced and scientific risk management systems are also employed by the two leading stock exchanges.

6. The Indian securities market has also many 'firsts' to its credit. It gave birth to the first demutualised stock exchange in the world. All stock exchanges in India, today, are corporatised and

demutualised. The Indian securities market was the first to use satellite based communication technology for securities transactions. It was the first major market to implement the T+2 rolling settlement. The growing number of market participants, the growth in volumes in securities transactions, the reduction in transaction costs, the significant improvements in efficiency, transparency and safety, and the level of compliance with international standards have earned for the Indian securities market a new respect among the securities markets in the world. We believe - and many here may share this view - that the Indian securities market is among the best regulated in the world.

7. I am happy to say that informed public opinion in India regards the securities market as a vital part of the economy and a key instrument in mobilising resources for investment. I believe that the Indian capital market will continue to play a greater role in channelising resources directly from savers to the investors at a competitive cost. The promotion of the equity culture will not only benefit industry and entrepreneurs; it will spread the benefit of the Indian growth story to millions of households. I shall now turn to the unfolding India growth story.

The India Growth Story

8. Ladies and Gentlemen, I stand before you at a time when there is optimism all around. Today, India is the second fastest growing economy of the world, next only to China. Our GDP has grown at an average rate of 8.6 per cent during the last 3 years. India's foreign exchange reserves at about US $ 200 billion have exceeded its external debt (US $ 143 billion) by a significant margin. The Stock markets are doing well. The two benchmark indices namely, the NSE NIFTY and the BSE Sensex, have given a compound average annual return of 29% per cent and 33% per

cent, respectively, over the last three financial years. In terms of market capitalisation at over US$850 billion, the Indian securities market is the fifth largest in the Asia-Pacific region after Japan, Australia, Hong Kong and Korea. In fact, the market capitalisation of listed securities exceeds the aggregate deposits with the banking system. According to Global Stock Markets Fact Book 2006, India ranked 17th in the world on market capitalisation as at the end of December 2005.

9. By the end of 2007-08, India will have a GDP of US$1 trillion with savings and investment rates well in excess of 30 per cent. This means that giant financial flows will be intermediated in India. We are keen to reap the advantages of international flows of money and the best international practices concerning the financial sector. To obtain the best bang for the buck - to translate this flow of precious savings into high quality investment - we need a world class financial sector. The first stop for such a financial sector would be the securities market regulator and the quality of regulation.

Challenges Before the Capital Market

10. We foresee many challenges before the capital market. Globalisation is no more a choice, but an inevitable reality for which every country should be prepared. Inflow and outflow of capital would continue to pose difficult problems. We have to live with some degree of volatility in the equity market, forex market and debt market irrespective of the level of capital account convertibility. There would be uncertainty with respect to movement of international interest rates and exchange rates. There is also a potential threat to financial stability of the emerging market economies (EMEs) arising out of disorderly adjustment of global macro-economic imbalances, particularly with respect to the

twin deficits (fiscal deficit and external current account deficit) in the US. Inflation expectations loom large in most parts of the world. Therefore, many central banks have responded proactively to tighten liquidity so that inflation is held in check. To the extent that some of the challenges originate from abroad, we have little control over them. Nevertheless, we have to upgrade our risk management system, improve our governance standards and strengthen our regulatory framework so that we would be in a position to convert the challenges into opportunities. There is a need to expand the investor base, particularly the retail base, through investor protection and education. We must assiduously work to enhance credibility by adhering to international best practices relating to all aspects of capital market activities.

11. As regulators of capital markets in over 100 countries, you have gathered here to share your rich and valuable experience. There is much to share among yourselves; there is much to learn from each other. I would like to highlight three areas where there is scope for more work to improve upon the good work that has already been done. These are: (i) sharing technology and best practices; (ii) establishing standards for effective surveillance of international securities transactions; and (iii) providing mutual assistance to promote the integrity of markets. Let me elaborate these:

Sharing technology and best practices: I strongly believe that the failure to share is at the root of the divide between well regulated markets and poorly regulated markets. The divide can be very sharp because there are wide differences in the use of technology and in market practices. It is in our collective interest that those who possess technology share that technology with participants in other markets.

Establishing standards for effective surveillance of international securities transactions: Investors, issuers and intermediaries increasingly see the benefits of internationalization. Regulators see only one global market. With the investor in country A, the broker in country B, the exchange in country C and the issuer in country D, the legal basis for a contract may become very complex. Harmonizing the market regulations would greatly simplify the problems and reduce the compliance costs for participants. Participants will not have to comply with different regulations in different jurisdictions. Similarly, harmonization of accounting standards would reduce the cost of investing and increase international investments. Given the differences in legal systems and regulatory traditions, such harmonization may be difficult, but there will be gain to every one if it can be ensured that international investors enjoy at least the same, if not better, rights and guarantees as local investors do and are assured of non-discretionary treatment.

Providing mutual assistance to promote the integrity of markets: Traditionally, businesses were clearly differentiated and there was separation of supervisory structures along business lines. The economies of scale and economies of scope coupled with financial deregulation have led to the emergence of universal financial power houses. Further, while business is borderless, regulation is not. There is a growing mismatch between the limited authority of national regulators and the global reach of financial intermediaries. This increases the chances of systemic risks in one country spilling over to other countries. Regulators need to co-operate more frequently than ever before and that too at multiple levels and across countries.

12. I am sure you will deliberate on these issues with a view to enlarging your effectiveness as national regulators and in the common interest of all regulators.

The Challenge of Regulation

13. Through wide and intensive debate, we continue to search for an answer to the question: "What is the appropriate level of regulation?" Whether regulation is excessive or indulgent is a matter of judgement. A successful regulator will strike the right balance.

14. The governance by regulators has stood the test of time, including judicial scrutiny. The success of such governance, however, depends on the architecture of regulators. Several aspects need to be taken into account while structuring a regulator. First, since both the government and the regulator operate in the same space, their respective responsibilities need to be clearly demarcated. Second, though the regulator is an off-spring of the government, the regulator must be allowed to grow up to take responsibility for its actions, and this requires empowerment of the regulator and provision for its accountability. Third, since the regulator itself exercises legislative, executive and judicial powers, there must be, within the regulator, a strict separation of powers among the three wings.

15. Predictability and precision in securities laws is the foundation of regulation of the securities market. Besides, the securities market can only be as strong as its governing practices, the financial soundness of its institutions and the efficiency of its market infrastructure. Instilling and applying sound governance practices are responsibilities that must be shared by regulators and market participants. It is important for the regulator to follow sound governance practices in its own operations; otherwise, it may lose the credibility and moral authority that it needs to be effective in its oversight role. The regulator is also accountable to the executive

and the legislative branches of Government, whose delegate the regulator is, as well as to the public at large. I am sure that the deliberations of your conference will help all regulators to strive towards the goal of evolving and nurturing well-regulated securities markets throughout the world.

16. I have great pleasure in inaugurating your 32nd Annual Conference. I wish the foreign delegates a pleasant stay in our country. I wish your conference success.