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Opening Ceremony

2. Speech by Professor Fernando Teixeira dos Santos

Chairman of the IOSCO Executive Committee

and

Chairman of the Comissão do Mercado de Valores Mobiliários of Portugal

22 May 2002

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Professor Fernando Teixeira dos Santos

Good morning,

First of all, I would like to express my warmest welcome to all the participants to this annual conference dedicated to the theme: “Opportunities and Challenges”.

Let me also, at this special moment, express my deepest gratitude to Doctor Doğan Cansızlar and the Capital Markets Board of Turkey for the extraordinary hospitality with which we are being granted and congratulate him for the excellent organisation of this event.

The way in which globalisation manifests itself in international financial markets clearly justifies the extended debate which will take place during the course of this conference. IOSCO hopes to promote, in this way, reflection on this theme by regulators and supervisory bodies identifying concerns and fostering awareness with a view to taking advantage of the opportunities and challenges posed by globalisation.

Since the installation of a trans-atlantic cable linking the stock exchanges of London and New York, which led to a very definite transformation in the financial industry, the rhythm and nature of **technological innovations** has played a decisive role in the phenomenon of globalisation, fuelling interdependence between financial markets.

Information has also benefited from the advent of globalisation, both in terms of costs and terms of accessibility and speed of diffusion.

The **liberalisation of financial markets** and the significant reduction of **transaction costs** has made it possible to increase the mobility of capital flows, to obtain greater diversity of portfolios and to share risks. At the same time, the array of opportunities for economic agents to obtain funds abroad has increased, benefiting the global economy.

However, globalisation does not convey advantages and benefits alone. It also raises issues of concern that must be adequately dealt with.

Globalisation, intertwined with technological progress and financial innovation, has changed and is changing the international financial landscape on a dramatic way.

Intermediaries in financial markets became more international participating “around the clock” in worldwide capital markets and operating from a complex network of branches in different countries subject to different jurisdictions. We have also

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witnessed the proliferation of merger activity as well as partnerships and acquisitions involving commercial banks and/or insurance companies giving rise to financial conglomerates . New financial products and new capital structures appear making group relations less transparent, raising questions concerning accounting practices and corporate governance. At the same time, the flow of information has considerably increased across-borders raising issues of asymmetry, transparency, clarity and reliability.

The growing globalisation of financial markets has also raised questions relating to the eventual greater vulnerability and volatility of local markets, and economies, to international disturbances through contagion effects. Finally, an important set of issues raised by globalisation relates to the cross-border financial transactions to finance illegal, and sometimes terrorist, activities.

[Pause]

The issues raised by globalisation in the international financial system, create a need for procedures and practices adequate to its new characteristics. This is the reason why, in my view, globalisation reinforces the importance of supervisory and regulatory bodies and emphasizes the role of international cooperation. Global markets require a global perspective and a global approach from the part of securities regulators and supervision. In this context, IOSCO is playing and will have to play a major influence setting appropriate standards, defining principles and objectives, and promoting its implementation worldwide.

Sound macroeconomic and financial structures together with sound international standards widely implemented contribute to a better capacity of reaction in facing disturbances reducing systemic risks and contagion risks.

Such International standards promote a wider safety net for investors fostering trust and confidence in capital markets worldwide.

These standards together with appropriate competition policies, eliminating or reducing barriers to entry in the industry will also enhance the efficiency of markets.

The dramatic events of last year, have awakened us for the reality of globalised criminal activity, terrorism and the use of capital markets in that context. These events made clear the need for a substantial increase in our levels of cooperation and better information sharing.

Economic agents will only be discouraged from exploiting information asymmetries if illegal situations such as fraud or misconduct are identified effectively and

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punished either by civil or criminal law. Today, this is too much a task to be handled by an isolated regulator. Cooperation is needed not only at the domestic level, but mostly at the international level.

IOSCO is aware of its role in promoting better regulation and cooperation. When events called for quick and strong responses, IOSCO was able to undertake an important initiative that will lead to the approval, I expect, here in Istanbul of a multilateral memorandum of understanding for enhanced cooperation and information sharing. This, I believe, will provide us with an important tool that will allow to better fight against global crime in globalised markets.

Globalisation offers generalised benefits and for this reason it is important to promote the orderly functioning of global markets. This requires an accurate identification of the new issues raised by globalisation and the identification of the adequate measures and solutions to address them.

I believe that the set of panels of this conference will be a unique opportunity to have a thorough analysis of many of those issues and will bring out important contributions. I finalise with my best wishes of good work to all the participants.

Thank you.