



25th IOSCO Annual Conference
Sydney, Australia

PLENARY 5
Implementing Global Regulatory
Principles and Standards

18th May 2000

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Implementing Global Regulatory Principles and Standards

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Objectives and Benefits

- ◆ Promote sound financial systems domestically
- ◆ Promote financial stability internationally
- ◆ Strengthen financial regulation and supervision
- ◆ Enhance transparency
- ◆ Facilitate institutional development

FSF Task Force on Implementation of Standards

- ◆ FSF set up Task Force in November 1999 to
 - ❖ explore issues on promoting implementation
 - ❖ consider a strategy
- ◆ Task Force submitted its report to FSF in March 2000

Key Success Factors

- ◆ promoting country ownership
- ◆ providing a judicious blend of market and official incentives
- ◆ mobilizing resources both nationally and internationally through enhanced partnerships

Ownership

- ◆ Implementation of standards is a sovereign decision
- ◆ Economies will implement international standards when it is in their national interest
- ◆ Strong sense of country ownership is critical for fostering implementation

Ownership -- Difficulties

- ◆ Some consider “national” standards more appropriate for their particular stage of development
- ◆ Fear disclosure of non-observance of standards may lead to adverse market reaction
- ◆ Concerns about applying international standards resulting in explicit recognition of hitherto hidden economic loss (economic loss vs accounting loss)

Fostering Ownership

- ◆ alignment with domestic policy priorities
- ◆ buy-in across sectors and agencies
- ◆ participation at international standards setting process (e.g. IOSCO)
- ◆ public commitment (announcement of standards adoption, action plan etc.)

Market Incentives

- ◆ differentiated credit ratings
- ◆ borrowing spreads
- ◆ asset allocation
- ◆ other lending and investment decisions

Market Incentives (2)

For market incentives to work market participants need to

- ◆ be familiar with the international standards
- ◆ judge them to be relevant to risk assessments
- ◆ have access to information on observance of standards

Official Incentives

- ◆ Could complement market incentives
- ◆ But must be careful in use:
 - ❖ up to the particular IFI, multilateral donor/lender, or capital-providing country
 - ❖ avoid adverse effects on development
 - ❖ not possible to base on simply pass/fail grade

Resources

- ◆ Implementation is highly resource intensive
- ◆ Two areas of acute resource needs:
 - ❖ capacity building (including technical assistance and training)
 - ❖ assessment of progress in implementation

Resources for Conducting Assessment

- ◆ IFIs and standard setting bodies to leverage on each other's resources
- ◆ Fund/Bank framework for FSAP and ROSC useful in this regard
- ◆ More countries to contribute expertise and assistance

Five-Stage Strategy

- ◆ international consensus on key standards
- ◆ prioritization taking account of country circumstances
- ◆ action plan for implementation
- ◆ assess progress on an ongoing basis
- ◆ disseminate information on progress

Accounting Standards

- ◆ Good accounting is an economic fundamental
- ◆ Bad Accounts
 - = Bad Data
 - = Bad Policies
 - = Bad Risk Management
 - = Financial Crisis

Accounting Standards (2)

- ◆ At present, multiplicity of standards in accounting and auditing
- ◆ IFIs and international regulatory bodies (IOSCO, BCBS, IAIS etc.) to work with accounting profession to expedite strengthening and convergence of standards

Accounting Standards (3)

Economies be encouraged to

- ◆ adopt high-quality accounting standards
- ◆ specify the standards they are following
- ◆ ensure the requirements are clear, reliable, transparent and objective
- ◆ apply and enforce their accounting standards in a consistent manner

FSF Singapore -- Way Forward

- ◆ FSF endorsed Task Force's report
- ◆ 12 key standards for sound financial system to be highlighted in Compendium of Standards
- ◆ further work needed on incentives, especially market incentives
- ◆ some suggested periodic review of area
- ◆ other international organizations also interested and might become involved

End of Presentation