PLENARY 5
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
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