Let me begin by thanking UNCTAD and the ISAR Secretariat for this kind invitation.

Allow me to mention a few words about IOSCO. IOSCO is the standard setting body for securities regulation with more than 120 regulators members. But IOSCO is not just about setting standards; it is also about helping members, majority of whom are emerging markets, in capacity building; it is also about monitoring consistent implementation; and it is also about looking at emerging risks. IOSCO’s objectives are investor protection, fair, efficient and transparent markets and reduction of systemic risk.
I would like to share with you today the following: the present economic context from IOSCO’s point of view, the importance of market based financing; and what all this means for the topic of reliable and high-quality corporate reporting.

**Present environment**

Credit institutions face higher capital requirements, constraining their ability to lend. Bank lending to the real economy has been decreasing due to new regulatory initiatives requiring banks to hold more capital. The situation in Europe is especially stark, with lending at 50% below the 2009 levels. The public sector is itself weighed down by high levels of debt.

However, corporate reliance on securities markets has been increasing despite volatility. As an example, in the US, equity offerings as well as corporate debt have increased 20-25% since 2007. Asian corporate debt issuance is on the ascent, specifically from China, as is the rise in Islamic bond (Sukuk) financing. However, European corporate debt issuances have not recovered since the large fall in 2008. *There is also reliance on securities markets for bank funding, including the use of securitised products.*

The world is therefore moving towards a more market-based financing model. Strong, transparent and appropriately regulated securities markets, which are regulated by IOSCO members, are therefore essential for the sound functioning of the global economy and in the efforts to drive its recovery.

**Increased role of securities markets**

The question then is what are the necessary conditions for this market based financing to work and for markets to perform their function in promoting growth and jobs? In my opinion, the single most important condition needed is that there should be Trust: i.e. trust in the
system has to be rebuilt. The next question is: how do we go about rebuilding trust? And what role does high-quality corporate reporting play in this?

Restoring Trust: Making the system safer

One important pre-condition to rebuilding trust is that the systems and framework in which markets operate should be safe and should be seen to be safe. IOSCO has been working in this area of making the financial system safer – also called macroprudential measures - through its work on many areas including OTC derivatives and Financial Markets Infrastructure, shadow banking, and CRAs, to name a few. One very important area where we have worked to restore trust in the system is on financial benchmarks following the “LIBOR scandal” and we have come out with principles for financial benchmarks endorsed by the G20.

In this context of making the system safer, and increased financial stability, market confidence is the cornerstone for financial stability and avoidance of systemic risk. Market confidence depends to a large extent on the reliability, comprehensiveness and transparency of financial reporting.

Restoring Trust: In addition to rebuilding trust in the safety and soundness of the financial system from a macroprudential point of view, there is another key aspect: which is to regain the trust of the investors. It is important that the investor can feel confident and that he or she will not be cheated. This calls for increased efforts at investor protection, and that is also core IOSCO work. We have worked on investor education; on disclosure at the Point of Sale; and on investor suitability for complex financial products. We also have an investor alerts system that puts out these alerts very frequently on the basis of information received from various jurisdictions. Keeping pace with the current trend, we are working on the impact of social media and automated advice.
Coming to the role of disclosure and financial reporting in this context, again, full disclosure of information material to investors’ decision is one of the most important means of ensuring investor protection and securing investors’ trust.

Accurate, high quality financial reporting is crucial for financial markets to function effectively to play their role in a market-based financing environment. Let me mention what IOSCO is doing in this respect.

**IOSCO’s support to global standards**

IOSCO has been a longstanding supporter of high quality global reporting standards. Since we are recounting developments that go back as much as 30 years, I should mention that IOSCO endorsed the IASC Committee’s (which was the predecessor body of the IASB) standards more than a decade ago permitting its members to use the IFRSs for cross border offerings and listings in a globalized world. We believe that this support was essential in the success and development of IFRS.

IOSCO’s high-level principles of Securities Regulation, first issued in 1998, state that Accounting standards used by issuers to prepare financial statements should be of a high and internationally acceptable quality (Principle 18). They also state that there should be full, accurate and timely disclosure of financial results, risk and other information which is material to investors’ decisions (Principle 16). We have published reports and recommendations on Periodic Disclosure for Listed Entities and on disclosure of Asset Backed Securities. The Principles for Disclosure of Listed Entities also refer to disclosure of corporate governance disclosure e.g. compensation systems, internal controls etc. Another area we are working on is “non-GAAP measures”. IOSCO is planning to issue before the end of the year guidelines for issuers using financial measures other than those prescribed by Generally Accepted Accounting Principles (GAAP), like ‘normalized profit’, ‘adjusted
earnings’, EBITDA etc. The purpose is to provide issuers with clear and useful disclosure guidance and to minimize the risks of these measures being presented in a way that could be misleading.

IOSCO also holds two seats at the Monitoring Board of the IFRS Foundation. Indeed, the MB has been always chaired by an IOSCO member since its inception. A fundamental aspect of the MB’s mission is to promote the development of IFRS as a high quality set of accounting standards.

IOSCO has a dedicated Policy Committee, C1 on Issuer Accounting, Auditing and Disclosure. Its work programme continues to focus on the quality of financial information provided to investors by listed companies and financial institutions, and the accounting and auditing standards that underpin this information.

IOSCO participates actively in the financial reporting standard setting process. As part of our ordinary work, we thoroughly review the draft standards issued by the IASB and we provide our comments, from two perspectives:

- On the one hand, from the perspective of capital market authorities responsible for setting out the form and content of financial reporting with the aim of protecting the public interest.

- On the other hand as recipients of financial statements and enforcers, trying to identify where interpreting or enforcement issues could arise from a particular standard.

IOSCO is also involved with various IASB working groups, with the Advisory Council, the XBRL Advisory Council and we are observers at the IFRS Interpretations Committee (IFRIC).
We have substantially increased our interaction with the IFRIC. IOSCO provides its observations of these issues and whether there is diversity in practice and brings to the IFRIC real illustrative examples gathered through the IOSCO database. The IOSCO database aims at promoting consistency in the interpretation of IFRS by sharing documentation on implementation issues that members have encountered. This database is accessible by all IOSCO ordinary members that have agreed to sign the Participation Agreement.

Going forward, we are looking into ways to improve the means by which IOSCO members share their national experiences. For instance, we have created a teleconference platform where our members can discuss emerging issues. This has proved to be a powerful tool in identifying areas that need to be addressed. Most of the issues raised end up being reported to the IFRIC or triggered a wider IOSCO project. We are developing an expanded IFRS library containing adoption and implementation approaches in IOSCO member jurisdictions. These documents are intended to assist those IOSCO members that are in the process of adoption or are encountering implementation issues that have already been identified before by other members. We have also conducted a survey on IFRS variations, to assist our members in assessing the different adoption approaches taken by other members.

Very recently, and re-affirming our commitment to working closely with the IFRS Foundation, we have signed a Cooperation Protocol between IOSCO and the IFRS Foundation. This confirms IOSCO’s commitment to the promotion of the use of IFRS and their rigorous application. This Protocol was agreed by the IOSCO Board which received a presentation from the Chairman of the Trustees of the IFRS Foundation M. Michel Prada in at the IOSCO Annual Conference in Luxembourg. The protocol defines a framework for cooperation in the development of the standards: through periodic discussion and IOSCO’s involvement in IASB’s consultative groups and task forces and IOSCO’s input to proposed new or amended standards, providing a unique viewpoint bringing the regulatory and
enforcement perspective on board. It creates a platform to communicate on implementation issues, to allow communication that could lead to early detection of implementation issues and to limit diversity in practice. As part of the protocol, for new or amended standards the IASB will alert securities regulators of areas that are likely to be of interest. IOSCO will also provide feedback to the IASB on those issues that are more frequently raised or are more significant from the enforcer’s perspective.

**Conclusion**

Market based financing of the economy is going to be increasingly important going forward. For this to happen, however, we will need to look at three important issues: making the system safe; regaining trust of investors through investor protection, proper corporate governance and enforcement; and at the same time allowing markets to function in a globalized environment for the greater good of the citizens. In the absence of a single global regulatory body, the role of global standard setting bodies like IOSCO is crucial to avoiding regulatory arbitrage and reducing frictional costs. Clearly reliable and comparable financial reporting; high quality financial reporting standards and their consistent implementation are crucial to all these three elements. IOSCO is committed to all of these in the interest of sustainable economic development.

Thank you for your attention.