Good morning,

President Chiu of the Taiwan Securities and Futures Institute, Chairman Kong of the Financial Supervisory Commission of Taiwan, Chairman Cansizlar of the Capital Markets Board of Turkey and Chair of the IOSCO Emerging Markets Committee, Distinguished guests, Ladies and gentlemen.

It is both an honour and a pleasure to be invited to attend the 2005 IOSCO Emerging Markets Regional Training Seminar on “Corporate Governance and Investor Protection”. As Chairman of the Technical Committee and the HK SFC, I am also grateful to Chairman Kong for inviting me to make my first official visit to the FSC.

This IOSCO Training Seminar is very meaningful because it touches on the important issue of corporate governance. As my good friend, former Chairman Bajpai of the Securities and Exchange Board of India, puts it succinctly: spreading the word on corporate governance is like introducing a person to a mosque, temple or church; once they have heard the word, they will adopt the practices of their own accord. Well, I’m certainly a believer.

I commend to you the report of the EMC Task Force on Corporate Governance, which was chaired by Mr Bajpai. This is available on the IOSCO website.

Allow me to use this occasion to say a few words on what the Technical Committee has recently been doing and where I think IOSCO is headed.

As you are aware, IOSCO has established its reputation as the internationally recognized standard setter in securities regulation. As its members together regulate over 90% of the world’s securities markets, it
has worked hard to deliver concrete guidance and standards for securities regulators to work closely together to protect the integrity of our markets.

In the September 1998 Nairobi IOSCO Annual Meeting, the Presidents’ Committee adopted the IOSCO Objectives and Principles of Securities Regulation. In October 1998, the G22 Working Group reported\(^1\) on the international financial architecture that established the current global framework, whereby the G7 Ministers and Governors created the Financial Stability Forum (FSF) in February 1999 as the apex arena where global stability issues are discussed. This was most timely, as we were in the midst of the Asian crisis that began in July 1997 and which spread across to Russia and Brazil in 1998.

One of the priorities of the FSF was to set up an Implementation Task Force in September 1999, which I had the honour to chair. It was tasked to examine ways of fostering the implementation of international standards relevant to the strengthening of financial systems.\(^2\) In April 2000, the FSF endorsed the Task Force recommendations and designated 12 core standards as key for sound financial systems, which became the standards by which the World Bank and the IMF assess a jurisdiction’s financial system in conducting their Financial Sector Assessment Programme (FSAP). IOSCO’s Objectives and Principles of Securities Regulation are among the 12 core standards. Other standard setters include the Basel Committee, IAIS, OECD, CPSS-IOSCO, IASB and IFAC for banking supervision, insurance supervision, corporate governance, payments and settlements, and accounting and auditing respectively.\(^3\) Since then, there has been a revolutionary change in the regulatory standards not seen since the 1930s.

However, it is one thing to have global standards, another to implement them. Since Enron, we have recognized that the need for implementation and enforcement of standards no longer just apply to emerging markets alone, but even the developed markets. Hence, IOSCO has reached the point at which it has to walk the walk as well as talk the talk. With the support and understanding of the entire membership, especially members of the EMC, IOSCO has consistently done just that.

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\(^1\) The Reports on the International Financial Architecture can be downloaded from the International Monetary Fund website at www.imf.org/external/np/g22/.

\(^2\) The task force considered official and market incentives to encourage implementation, explored strategies for assisting countries in the practical implementation of standards, and evaluated options for generating information on progress in implementing standards. http://www.fsforum.org/publications/Issues_Paper_Standards00.pdf

\(^3\) Other standard setters are FATF on anti-money laundering and countering financing of terrorism, IMF on macroeconomic policy and data transparency, and the World Bank on insolvency.
For example, in 2002, we clarified the standards for the oversight of the accounting and auditing professions, as well as manifested the basic standards of international cooperation in the IOSCO Principles through the Multilateral Memorandum of Understanding (MMOU), the benchmark against which we will judge how we cooperate to combat cross-border market misconduct. In September 2003, we responded to concerns about the reliability and integrity of rating opinions issued by some Credit Rating Agencies (CRAs) by issuing a Statement of Principles Regarding The Activities Of CRAs, followed in December 2004 by the Code of Conduct Fundamentals for CRAs. We also issued the standard on Know Your Customer through the CIBO Principles.

After Parmalat broke out, closely after other high-profile corporate scandals, we established a Chairs’ Task Force, which will lead to the publication soon of the Technical Committee Report on Strengthening Capital Markets Against Financial Fraud. Next month, I will report to the FSF on the Technical Committee’s action plan to address the concerns identified by the Task Force.

As we all know, globalization of financial markets means that financial fraud can be easily conducted cross-border to take advantage of information and regulatory arbitrage. The only way we can combat financial fraud that damages the integrity of our markets is to cooperate, not just domestically with fellow enforcement agencies, but also have seamless cross-border enforcement cooperation and information sharing between securities regulators to counter trans-national fraud and securities law violations.

After such a spate of financial fraud cases, investors expect IOSCO to act, and we are responding. It is time to deliver.

Last month in Cape Town, we issued a Press Release announcing that we are embarking on a path-breaking initiative to engage some securities regulators in a confidential and constructive dialogue designed to strengthen cooperation, benchmarked against the MMOU principles.

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4. The IOSCO Principles for Auditor Oversight (October 2002) may be downloaded from IOSCO’s On-line library at www.iosco.org/library (IOSCOPD134).
5. IOSCO Multilateral Memorandum of Understanding concerning Consultation and Cooperation and the Exchange of Information, endorsed by the Presidents’ Committee in May 2002.
6. The Statement of Principles and the accompanying Report on the Activities of Credit Rating Agencies were developed by a Task Force chaired by Commissioner Roel C. Campos of the U.S. SEC.
7. The Code of Conduct Fundamentals for Credit Rating Agencies, which can be downloaded from IOSCO’s On-line library at www.iosco.org/library (IOSCOPD180), was developed by a Chair’s Task Force also chaired by Commissioner Campos of the U.S. SEC.
8. The IOSCO Principles on Client Identification and Beneficial Ownership (May 2004) may be downloaded from IOSCO’s On-line library at www.iosco.org/library (IOSCOPD167).
9. The Technical Committee Chairmen’s Task Force, on whose report the TC report is based, was established in March 2004 to consider IOSCO’s response to a proliferation of corporate scandals in various parts of the world amid suspicions of cross-border financial fraud. The co-Chairs are Commissioner Roel Campos of the U.S. SEC and Lamberto Cardia of Italy’s CONSOB.
Similarly, the Technical Committee, working with the Executive Committee and the Emerging Markets Committee, has fleshed out IOSCO’s Strategic Plan, prioritised its objectives and focused on the monumental task of implementation of the IOSCO Principles.

Making a better global financial system means that we have to start from the basic realization that we cannot do this alone. A global financial system is all about cooperation. Just like it takes not only an architect to build a house, we need bricklayers, carpenters, electricians and also house-owners and neighbours. Hence, IOSCO must be prepared to work not only with all its members, but also with all other stakeholders, investors, issuers, intermediaries, the IFIs and media to raise global standards.

This brings me back to where I started: corporate governance. Despite the fact that a majority of securities regulators have no direct mandate over corporate governance, the Technical Committee last month in Cape Town agreed to establish a Task Force on Corporate Governance to follow up on the recommendations of the Chairs’ Task Force to strengthen capital markets against financial fraud. Hopefully, by working in cooperation with the OECD, which is the standard setter on corporate governance, we can find means to give substance to the implementation of corporate governance practices in order to enhance the integrity of our financial markets.

My message today is therefore that IOSCO is continuing to lead in identifying and addressing issues that threaten our core objectives of securities regulation. Just as Chairman Kong is leading that effort to build a strong financial market in Taipei, we must all work together to strengthen our markets domestically and internationally. This Training Seminar helps to create that special bond between IOSCO members, and I commend Chairman Kong and his Financial Supervisory Commission in helping to host and organize this meeting.

Thank you.

Andrew Sheng
Taipei
24 February 2005