

**MIDDLE EAST IPO SUMMIT – DUBAI
5-6 MARCH 2006**

**THE IMPORTANCE OF EFFECTIVE STANDARDS
FOR MARKET REGULATION**

Your Excellency, Distinguished Guests, Colleagues, Ladies and Gentlemen,

It is both an honour and a pleasure to be here in Dubai for this important summit on the IPO process and to have this opportunity to meet with so many of you from around the world who are actively engaged in the global financial industry. I congratulate the organizers for putting together such a stimulating and timely forum.

For my part as the IOSCO Secretary General I have been asked to discuss the role which international standards play in the overall framework of market regulation and why these standards are particularly necessary for developing markets.

For those of you not so familiar with the organisation and the increasing prominence being given to international regulatory standards, I should provide some relevant background.

IOSCO – Background, Objectives

IOSCO is the world's leading forum for standards setting and cooperation on all matters of securities regulation. Its members include securities regulators and other relevant national bodies from more than 100 countries from around the world. Together our members regulate more than 90% of the world's securities markets making the spread of our membership base exceptional among international organizations. I am glad to note that the FSA of Dubai is one of our members as our several other agencies of this region which are present today.

IOSCO is well recognised for its unique regulatory role in the global financial community. We work with the Basel Committee on Banking Supervision and the International Association of Insurance Supervisors within a body known as the Joint Forum. This body functions at the highest level with cross-sectoral issues including, for example, credit risk transfer and risk management techniques in financial conglomerates.

IOSCO has three core objectives which together aim to promote better standards of regulation. These are:

- to protect investors;
- to make markets fair, efficient and transparent; and
- to reduce systemic risk.

IOSCO Principles

Our core objectives are embodied in our *Objectives and Principles of Securities Regulation*. This is a centerpiece of IOSCO outcomes and underpins the mission of the organisation in striving to deliver concrete guidance and better standards of corporate governance and markets integrity.

Since its foundation in 1983, IOSCO has matured as the undisputed authority and standard setter for regulation of securities markets. Since 1998, when we adopted the comprehensive set of IOSCO *Objectives and Principles of Securities Regulation*, our members have undertaken the biggest review and revamp of securities and corporate laws since the 1930s.

These Principles cover a range of areas relating to regulators and their enforcement of securities regulations; self-regulation and cooperation in regulation; issuers, collective investment schemes, market intermediaries; and principles relating to secondary markets.

The Principles establish clear high level benchmarks for the regulatory system in any jurisdiction. Here are four examples:

- the regulator should be operationally independent and accountable in the exercise of its functions and powers;
- the regulator should have comprehensive inspection, investigation and surveillance powers;
- the regulatory system should allow for assistance to be provided to foreign regulators who need to make inquiries in the discharge of their functions and exercise of their powers;
- there should be full, timely and accurate disclosure of financial results and other information that is material to investors' decisions.

The IOSCO Principles are obviously useless unless they are actually implemented i.e. applied in the structures and practices of regulators. The organisation has recognised that by establishing a methodology for objectively assessing whether and how well the Principles are implemented in any jurisdiction.

Meanwhile, the organisation's focus on practical support for members is one of its strengths. This is largely a matter of information sharing and expertise transfer between jurisdictions, including the transfer from more developed markets to emerging markets. This is particularly important given the diversity between countries and the differences existing in language, culture, and legal systems, let alone stage of market development.

IOSCO's activities and challenges

Given the range of issues which we have to tackle IOSCO through its Principles has helped shape accounting and auditing standards, influenced corporate governance standards and thoroughly reviewed the regulatory scope and processes covering the span

of intermediaries from brokers to credit rating agencies. In short, we have nearly completely re-written the book on standards on securities regulation.

It is my belief that it is necessary that this role be carried in within an international organisation such as IOSCO which is strongly supported by governments and industry alike around the world. That level of commitment is re-assuring as we move forward in dealing with the innumerable regulatory issues that we are confronted with.

Indeed, these days it would be fair to say that the international global financial system faces an immense range of complex challenges. Rapid change is a permanent feature of the environment within which financial markets operate. Whereas in the past, geographical boundaries were important, today issues and solutions involve an ability to reach across geographical borders.

Technology, competition and investor demand all add to the blurring of traditional boundaries. These are important issues for us, but the challenges they represent require cross-border cooperation, an issue that increasingly dominates our thinking these days.

Investors are attracted to markets by their depth, quality and integrity. The dynamism of the financial markets depends on investor confidence. That is why those of us involved in the global financial system need to maintain efforts to secure international standards on corporate regulation.

As we move to meet these challenges, we know that we do not have much time. Corporations, entrepreneurs, investors and governments all demand solutions to deal with current as well as emerging issues. As regulators, we need to be aware of developments in the financial markets and then take the lead in designing solutions.

Increasingly too, convergence and effective implementation of international financial standards across borders is becoming a central consideration to our work and direction.

We are conducting more and more work into new fields, from demutualization of exchanges to transparency of bond markets to hedge fund activities, while at each step along the way, we explore the policy implications of better standards and regulations.

Although the phase of establishing standards has almost reached maturity, the monumental work of enforcement and implementation of these standards has only just begun. Never in recent history has investor expectations of our ability to protect them been so high. And never in recent history of global markets have there been so many headline cases of corporate scandals.

The demand for more attention to accord investors' better protection has therefore been strong. At the same time however, we need to be conscious of getting the right balance between market facilitation and investor protection.

Capital markets are global but their operations are essentially local. International rules and standards now exist. But the effectiveness of regulation is only as strong as its weakest link. Companies operate today on a global scale, sorting through mountains of information, new and ever complex rules, both local as well as international.

As the international regulator for the securities industry, it is important that we work together with the industry as well as our international regulator colleagues in banking and insurance to find the most effective ways to tackle corporate and market misconduct. We also need to work quickly and effectively in order to detect, deter and sanction misconduct in cross-border markets.

IOSCO's reply to complex and cross border transactions has been the design of an international MOU which is the tool to strengthen international cooperation in order to fight financial frauds.

Clearly, fraud in capital markets occurs because those who perpetrate fraud find that their rewards appear to outweigh the perceived probabilities of apprehension, conviction and sanctions. Quick and effective risk-based enforcement action aimed at some areas would focus proper attention to the high price of breaches of the law.

IOSCO Principles as a Global Instrument

This brings me back to the subject of implementation. Standards and enforcement action are only effective if there are sufficient resources and determination to implement these standards. In recent years, the work of the ad-hoc IOSCO Implementation Task Force has proved invaluable in helping securities regulators from around the world to assess the extent to which they have implemented the IOSCO Principles.

When the Financial Stability Forum in April 2000 examined ways of fostering the implementation of international standards relevant to the strengthening of financial systems, it designated 12 core standards as key for sound financial systems. These have since become the standards by which the World Bank and the IMF assess a jurisdiction's financial system in conducting their Financial Sector Assessment Programme (FSAP).

The IOSCO *Objectives and Principles of Securities Regulation* is among these 12 core standards.

At last year's annual conference for the organisation which took place in Sri Lanka in April 2005, members confirmed the absolute importance of the IOSCO Principles and the need for implementation as widely as possible. We adopted operational measures to speed the implementation process in countries which have until now lacked the resources or the willingness to make significant progress.

The relevance of all this is that once we appreciate that the global financial system is a network of domestic financial systems, across which national savings flow in search of the highest return relative to the risks, there is an obvious imperative to strengthen the domestic financial system through international standards and principles.

The Global Market and the Need for International Standards

A weak domestic financial system is a threat to both domestic and global stability, especially if the more significant markets are vulnerable. Prior to globalization, it was possible to develop closed markets. But with the work of the World Trade Organisation and under pressure from the various International Financial Institutions, it is now almost impossible to develop domestic standards in isolation, as foreign financial institutions spread across markets, introducing new products, new technology and advance systems of corporate governance.

As international standards of accounting, auditing, corporate governance, securities, banking, insurance and fund management regulation emerge and spread, fund managers will want to ensure that emerging markets which attract their funds meet international standards.

A crucial question therefore arises whether emerging markets can achieve international standards in their domestic markets, (banking or capital), without the assistance of foreign financial institutions. They have the expertise, technology, risk management and governance experience in finance that many domestic players lack in terms of critical mass or even exposure to such competition.

For investors, the main concern is not so much about such things as quality of assets but the quality of governance structures, because ultimately, it is governance that delivers performance, rather than assets. Hence, the elements investors are concerned about relate to the quality of transparency; the standards against which performance and conformance are being benchmarked; and the structure within that governance.

For emerging markets it is therefore crucial that better gains be made in the arena of corporate governance since this will have a bearing on the growth of that market.

We would argue that the process of building the public infrastructure of judiciary, regulation and accounting and auditing using international standards is a necessary step towards good governance. This is what is usually called the “pre-conditions”.

The link to implementation and enforcement

The other fundamental element of the IOSCO strategy at the present time is increased international cooperation on matters of information exchange and enforcement. By building robust frameworks and processes for this cooperation, we are providing individual regulatory agencies with more tools to combat the costs and disadvantages of globalization in capital markets.

In order to further this, IOSCO adopted a specific *Multilateral Memorandum of Understanding* in May 2002. This was in recognition of the fact that in order to ease the investigation and prosecution of international securities fraud, the development of an effective network of administrative and enforcement cooperation among securities regulators was a high priority. As members progressively sign onto this MoU, they will

create an ever expanding network for cooperation that should over time improve the information gathering and enforcement activities of each regulator.

Currently, around 30 IOSCO members have signed the MoU, having demonstrated that they have the legal authority and operational capabilities required to participate in the network. For some regulators, even in prominent developed nations, qualification to become a signatory has required, or still requires, legislative reform in their local jurisdiction.

In recognition of the importance which the IOSCO MoU is now seen, the organisation took the decision at last year's annual conference to set the deadline of 1 January 2010 for all IOSCO members to sign onto the MoU. Setting such a deadline was a major milestone for IOSCO as an organization.

Through these efforts and initiatives, IOSCO is demonstrating its key role and is moving ahead with critical projects designed to systematically upgrade the implementation level of its high-level regulatory standards.

This will in turn, reduce systemic risk and improve investor protection. There remains a lot to be done, but it is this strong conviction of advancing further ahead, that stimulates those of us as regulators who are responsible for this collective mission.

IOSCO - conclusions

Finally, a note for your diaries: IOSCO is organizing its 2006 Annual Conference in Hong Kong. It represents a good opportunity both for financial regulators and the financial securities industry from around the world to strengthen ties and establish new contacts. Participants will have the opportunity to hear the perspectives of market experts and regulators on issues that are of current interest to all, and what they think should be done to address these challenges.

This is an important event that will take place during the first week of June and so I encourage those of you with a desire to learn more about our areas of operation to consider attending.

I also take this opportunity to encourage you to visit the IOSCO website at www.iosco.org where you will learn more about the activities the organisation is currently involved with.

Thank you.

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