

Securities Regulation - An International Perspective

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It is a great pleasure to speak at this annual general meeting of the International Council of Securities Associations, hosted by the Japan Securities Dealers Association. I am among friends who share with the International Organisation of Securities Commissions, or IOSCO for short, a strong interest in promoting the integrity, stability and growth of securities markets around the world.

Today I am going to give an overview of IOSCO - and discuss IOSCO's priorities. These are consistent standards of securities regulation worldwide, the ability of regulators to exchange information for enforcement purposes, and effective communication and dialogue. In particular I will reflect on the importance of IOSCO's relationship with self-regulatory organisations (SROs) and the industry generally.

Background on IOSCO

IOSCO is widely recognised as the global standard setter for securities regulation – a role which has grown substantially over the years. IOSCO's membership includes securities regulators in 108 jurisdictions, together accounting for more than 90% of the world's securities markets. IOSCO also has 65 affiliate members, and I am pleased to note that they include some of the securities associations represented here today.

As an international organisation, IOSCO works closely with the Basel Committee on Banking Supervision and the International Association of Insurance Supervisors – both regulatory standard-setting bodies of equal international stature to IOSCO. In addition, we have strong relationships with the World Bank, the IMF, and the OECD, who are also affiliate members of IOSCO, and others. Indeed, IOSCO is part of the complex web that constitutes the international financial architecture. As the international standard-setter in securities regulation, IOSCO seeks cooperation and consultation with all organisations that can help promote efficiency, fairness and transparency in capital markets at both national and international levels. I will expand on this point later.

The main standards set by IOSCO are the *Objectives and Principles of Securities Regulation*, adopted in 1998. These set three goals for securities regulation:

- to protect investors;
- to ensure the fairness, efficiency and transparency of markets; and
- to reduce systemic risk.

The Principles are the foundation for all IOSCO work in setting standards, and in exploring regulatory issues through surveys and reports.

The IOSCO Principles are non-binding, but they have substantial authority among regulators and governments due to IOSCO's high standing in the global financial community. That standing reflects IOSCO's 31-year history; its broad international membership; its rigorous processes for drafting standards and agreeing on difficult issues; and its network of relationships.

There is now a strong expectation that policy makers and regulatory agencies will implement the IOSCO Principles, using the legal powers and capabilities available within their national jurisdictions. The Principles are sufficiently high-level to be implemented through the structures and processes best suited to each jurisdiction.

IOSCO seeks international consistency and alignment, while acknowledging the importance of economic, political and cultural differences between individual jurisdictions. As one measure of progress, the World Bank and IMF use the IOSCO Principles within the Financial Sector Assessment Programme. Under that programme, the IMF and World Bank evaluate the strengths and weaknesses of the financial sector at the domestic level. In doing so, they use the IOSCO Principles as the benchmark for assessing securities regulation and markets.

I mentioned before that IOSCO's role has grown substantially over the years. That growth reflects the fundamental pressures on regulators worldwide. There are ongoing challenges arising from the huge growth in capital markets; the integration of those markets across national borders; and the rising complexity of securities products and market structures. Of course, there has also been an associated growth in the risks of market abuse and financial fraud. This is graphically demonstrated in the corporate collapses of Enron, Parmalat and others. Those high-profile collapses, the fraud they revealed and the resulting losses to investors, highlighted the importance of sound regulation and implementation – and IOSCO has been very active in response. Today, the organisation has a full agenda, and a strong mandate to tackle current and emerging issues in securities regulation worldwide.

IOSCO Strategic Priorities

IOSCO's priorities are very clear, and they were confirmed by members at the 31st annual conference of IOSCO in June this year.

First, IOSCO will forge ahead to promote the consistent and comprehensive implementation of the IOSCO Principles in all member jurisdictions. This includes a programme of assistance for regulators who might otherwise struggle with implementation. Understandably, this is a particular issue in some of the world's emerging markets. Clearly, the globalisation of markets brings a heightened need for consistency and comprehensiveness in regulatory frameworks from one jurisdiction to the next. We are all part of a global system.

This leads to the second priority: To expand cross-border cooperation and information exchange between regulators on matters of enforcement. The vehicle for this is the *IOSCO Multilateral Memorandum on Consultation, Cooperation and Exchange of Information*, in short the IOSCO MOU, which was adopted in 2002. This is a framework which enables signatories to give each other, on request, effective and timely assistance for combating cross-border financial fraud and market abuses. To date, 34 securities regulators from around the world have signed up to the IOSCO MOU. It is being used successfully and increasingly.

However, further extending this network of signatories is a matter of high priority for IOSCO. Last year in a landmark decision, IOSCO set a deadline of January 2010 for all member regulators to become signatories, or at least to commit to joining the IOSCO MOU within a reasonable timeframe. Frankly, it is imperative for regulators to have greater cross-border reach if we are to remain effective in the globalised securities markets.

The standard for joining is necessarily high. To be accepted to sign the IOSCO MOU, securities regulators must have sufficient powers and capabilities within their home jurisdictions. They must be able to obtain and exchange the types of information sought by fellow regulators who are investigating suspected breaches of law, with speed and efficiency. For some, this requires law changes to augment their existing authority. IOSCO has programmes to assist members on request to identify requirements and plan law reform projects. The 2010 target date indicates the high importance attached to cross-border cooperation.

I want now to highlight a third, related priority: That is consultation and information exchange with the wider financial community. IOSCO has a global focus, and is committed to drawing information and views from many quarters. It has an enviable record of consensus-building among its broad and varied membership, and of delivering practical solutions for all on regulatory issues. This is a core strength of the organisation. As a matter of priority, IOSCO is extending this to consultation with all stakeholders, including industry bodies and other participants in securities markets.

As part of this enhanced communication and consultation, the IOSCO Technical Committee – which oversees the standard setting programmes – is holding a conference in London next month. This follows very successful similar events held in New York and Frankfurt over the past two years. Another is planned here in Tokyo in 2007.

These events are valuable opportunities to explain IOSCO's work, to listen to others, and receive feedback. They enable very high-level dialogue between the regulatory community and industry on standard-setting issues. Equally important are meetings with industry representatives and bodies such as yours to discuss trends and issues of mutual interest.

Much of IOSCO's work is to explore issues and weigh regulatory options. There is a well established consultation process, and IOSCO regularly publishes surveys and reports. Many reports are first published as consultation documents. In doing this, IOSCO actively seeks input from interested and knowledgeable parties. The responses received are also published.

All these opportunities for dialogue and feedback are fundamentally important. They help to ensure that IOSCO maintains the right focus, balances the risks and costs of various regulatory approaches, and has the best information for advancing the cause of good securities regulation.

Relationship with ICSA

This brings me to the International Council of Securities Associations. Your objectives to promote international convergence in regulation and to encourage mutual understanding among members are very similar to IOSCO's own ideals. I note that you "aid and encourage the sound growth of the international capital market" – and again we stand on common ground. Securities regulators certainly want to see growth in capital markets leading, in turn, to growth in economic prosperity at both the national and international levels. One fundamental premise is that fairness, efficiency and transparency, along with adequate investor protections, will promote the growth of markets and economies. At the same time, regulation is likely to impose costs. We must weigh these costs against the benefits of greater investor protection and market efficiency, and reduced systemic risk.

IOSCO is pleased to receive comment from the ICSA and from member associations in the context of IOSCO's work programme. We recognise the depth of knowledge among your members and the value of their contribution as IOSCO seeks to develop sound regulatory standards. We share some members. Seven of ICSA's member securities associations are also affiliate members of IOSCO, including our host today, the Japan Securities Dealers Association. Most of these IOSCO affiliates are participants of our SRO Consultative Committee – a body dedicated to ongoing consultation between IOSCO and self-regulatory organisations.

SROs are very important to the operation of securities markets. The IOSCO Principles state that the regulatory regime of any jurisdiction should make such use of SROs as is appropriate to the size and complexity of their markets. SROs should, in turn, be subject to oversight by the regulator, and should observe standards of fairness and confidentiality when exercising their powers and delegated responsibilities.

IOSCO recognizes the importance of close dialogue with SROs and international organisations that are affiliate members and welcomes their input into its work. The SRO Consultative Committee of IOSCO has designated contact persons with the five working groups of the Technical Committee. These working groups focus on disclosure and accounting; regulation of secondary markets; regulation of market intermediaries; enforcement and exchange of information; and investment management. They lay much of the groundwork in the standard-setting process. IOSCO's committee structure thus enables member SROs to have a direct input into IOSCO's technical work.

I am pleased to note that at IOSCO's annual conference in June, the SRO Consultative Committee elected Mr. Tatsuo Watanabe, the Vice-Chairman of the Japan Securities Dealers Association, to chair IOSCO's SRO Consultative Committee for the next two years. I welcome that appointment, which recognizes the global importance of Japan's economy and capital markets.

IOSCO Work Programme

IOSCO's current work programme includes examining the regulatory issues associated with the demutualisation of securities exchanges. This creates a form of SRO that has evolved into a for-profit business entity with an ownership structure and business goals fundamentally different from the traditional norm. IOSCO issued a consultation paper on the related issues for market regulators last March. Substantial comments were received and a final report, with conclusions and recommendations, will be released within the next two months.

The work programme also focuses on the conduct of market intermediaries in certain areas. We have been looking at mechanisms that are, or should be, used to deal with conflicts of interest. A consultation paper on conflicts in securities offerings is due to be released soon.

Governance of collective investment schemes has had close attention over the past two years. A consultative document was released recently on specific governance issues, namely "independence criteria, empowerment conditions and the functions of independent oversight entities". This analysis continues a broad IOSCO work stream on collective investment schemes.

Hedge funds are another area of focus, with particular reference to disclosure of hedge fund fees, risks, internal controls, conflicts of interest and the experience of fund managers. Also IOSCO, in consultation with industry, is developing principles for the valuation and administration of hedge funds.

We are active on issues in regard to accounting, auditing and disclosure. IOSCO is about to launch an internal database of members' regulatory decisions on the enforcement of International Financial Reporting Standards. This is a reference tool for regulators worldwide and, over time, will contribute to convergence and coordination of accounting practices between jurisdictions.

IOSCO has a very full work programme. The organisation seeks to identify the most important issues and find the best regulatory responses. Indeed, we seek to identify issues and risks as they begin to emerge – and then provide policy makers, regulators and market participants with clear information about those issues and risks, and the regulatory implications.

IOSCO's work programme continually provides more guidance for implementing the Principles and for cross-border cooperation between members – two of our three strategic priorities.

The third priority is consultation and information exchange with all stakeholders in the wider financial community. IOSCO recognises that this ongoing dialogue is vitally important to delivering on the first two priorities.

Concluding Remarks

I conclude by emphasizing the value of sound, internationally-consistent standards for securities regulation especially in an age of increasing market globalisation - standards which are developed in consultation with industry. IOSCO takes its role extremely seriously and has good support from other leading bodies in the international financial community. Over recent years, IOSCO has made important strides in encouraging the implementation of sound, consistent regulation in all jurisdictions around the world. This continues to be the top priority, along with more effective and timely cross-border cooperation between securities regulators.

However, I want to make it clear that IOSCO is not committed to regulation for regulation's sake. Far from it. We strive for result-oriented regulation that is practical and cost effective for all concerned parties. We favour only as much regulation as is necessary for ensuring efficient, fair and transparent markets, with appropriate investor protection and reduced systemic risk. Regulatory proposals that would impose costs outweighing benefits should always be rejected – and I am confident that the securities industry, among others, will let us know when there is any danger of this!

I want to make it clear also that IOSCO is always grateful for information and views on regulatory issues from informed and interested parties. We rely on many sources to fully understand the issues and the implications of particular regulatory options. We welcome diversity in analysis and views. I look forward to ongoing dialogue with you all on topics of common interest.

Maintaining and promoting securities markets that are efficient, fair and transparent is the responsibility of all participants, not just regulators. Securities firms have a crucial role to play in their day-to-day conduct. To a large extent, regulators anywhere in the world can only set baseline expectations for good conduct and define boundaries for some decision-making. Ultimately, we rely on the knowledge, good judgment and sound ethics of securities issuers and dealers, investors and other market participants.

I am confident that IOSCO's efforts to enhance the quality and consistency of regulation worldwide will be matched by high standards of conduct in the securities industry. This will contribute to the integrity of the world's securities markets with benefits for industry and investors alike.

Thank you.

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