



Final Communiqué of the XXVIIth Annual Conference of the International Organisation of Securities Commissions

The world's securities and futures regulators and other members of the international financial community met in Istanbul, Turkey, from 18 to 24 May 2002, on the occasion of the XXVIIth Annual Conference of the International Organisation of Securities Commissions (IOSCO). The Capital Markets Board of Turkey hosted this year's Conference and warmly welcomed 478 participants from 85 jurisdictions.

The theme of this year's conference was "Globalization: Opportunities and Challenges." This theme was chosen in recognition that the process of globalization presents both new opportunities to investors and financial services providers and new challenges to financial services regulators. The conference provided a forum for securities regulators and industry participants to consider fundamental issues relating to the increasing provision of financial services on a cross-border basis and the associated international capital flows. In addition, the conference provided a forum for regulators and industry participants to consider issues that are of paramount concern subsequent to the events of 11 September 2001 and recent corporate failures of international significance. IOSCO is committed to facilitating a dialogue among securities commissions internationally that will assist them in responding to the issues raised by these events and fashioning robust regulatory regimes.

The Conference was officially opened by Dr. Doğan Cansızlar, Chairman of the Capital Markets Board of Turkey. In his remarks, Dr. Cansızlar noted that "globalization is with us to stay" and that there have been important changes and developments in the financial services industry in the last decade due to the improvement in information technology and increasing competition. Dr. Cansızlar observed that: "Financial firms diversified and extended their operations beyond borders in this new competitive world. This more competitive complex financial environment gave rise to new risks for firms, markets and regulators. To deal with these risks, regulatory authorities, law enforcement authorities, and other relevant authorities from all jurisdictions need to develop high level standards for information sharing." Regarding the optimal policy approach for emerging markets to address the effects of globalization, Dr. Cansızlar also noted that: "From an emerging market standpoint, the most effective policy to

overcome the fragility of local financial markets is to undertake reforms that will restructure the banking and financial sectors, operate under rules of genuine transparency, and reinforce an institutional framework that supports open markets. These local reforms would be most successful when implemented in tandem with global reforms.”

Dr. Kemal Derviş, the Turkish Minister of State in charge of the economy also addressed the Conference. Dr. Derviş described the dynamic environment that exists in emerging markets as a result of globalization, the great opportunities for development in emerging markets to which globalization gives rise, and the necessity for emerging markets to develop a robust regulatory regime that is adequate to address the volatility that may accompany the rapid growth that globalization engenders in emerging market economies.

A number of important initiatives and achievements were announced at the Conference:

IOSCO Memorandum of Understanding concerning Consultation, Cooperation and the Exchange of Information

The IOSCO Presidents’ Committee has endorsed the form of a multilateral [Memorandum of Understanding](#) (MOU) regarding information sharing and cooperation in enforcement matters.

The endorsement of this MOU represents a significant step in responding to the challenges presented by increased cross-border securities activity. It builds upon the long history of cooperation among IOSCO members and sets an international benchmark for information sharing. By setting forth clear standards for information sharing, the MOU will facilitate the investigation and prosecution of cross-border securities violations and enhance the enforcement of securities laws worldwide.

With this unprecedented initiative, IOSCO is the first international organization to have established a broad-based arrangement to assist in combating securities violations around the world.

Contingency Planning

In response to the events of September 11, IOSCO has collected reports from IOSCO members relating to contingency planning by regulators and firms in their respective jurisdictions and has conducted an internal exercise to assess these reports with a view towards future work related to contingency planning. In a related exercise, the Technical Committee’s Standing Committee on Secondary Markets is conducting an analysis of cross-market and cross-border trading halts in the interest of promoting the orderly functioning of markets.

Money Laundering and Financial Crime

In addition to pursuing its own initiatives regarding information sharing which have culminated in the endorsement of the [IOSCO MOU](#), over the years, IOSCO has undertaken considerable work in the area of customer identification and the regulation of securities intermediaries. IOSCO is now actively engaging with the Financial Action Task Force and other international bodies on these issues as part of initiatives to identify and prevent money-laundering, terrorist financing, and other financial crimes. IOSCO is committed to continuing these activities.

The Technical Committee Chairs Subcommittee

In response to recent high profile corporate failures worldwide, in January 2002, the IOSCO Technical Committee organized a subcommittee composed of chairmen and senior representatives of securities regulators from a number of jurisdictions to coordinate and focus IOSCO's response to the securities regulatory issues raised by these events. The Subcommittee also is assisting in identifying new issues for study and in reprioritizing the work plan of the Technical Committee's Standing Committees and Project Teams. Additionally, the Subcommittee is the focal point for collaboration with other international bodies relating to these issues where it is required. As a result of its initial discussions, the Subcommittee is focusing its attention on the following issues: the role of rating agencies in international capital markets; consolidation in the auditing and accounting industries; priorities relating to International Accounting Standards; the scope of auditing services and oversight of the profession; and disclosure and transparency issues. A number of new projects developed in the Subcommittee have been approved by the Technical Committee.

The Implementation of International Standards in Financial Services

The Implementation of the IOSCO Principles

As the primary international standard setting body for the securities industry, IOSCO is committed to promoting improvements in the level of securities regulation internationally and to enhancing the integrity of international securities markets through the implementation of its Objectives and Principles of Securities Regulation (IOSCO Principles), adopted in 1998 and updated in 2002. Those IOSCO

Principles remain at the heart of IOSCO's mission.¹ Through a process coordinated through the IOSCO Implementation Committee, all IOSCO members are engaged in a self-assessment process regarding the IOSCO Principles. To assist this effort, as well as that of third party assessors, IOSCO has embarked on a new project to provide detailed guidance on the implementation of the IOSCO Principles through a benchmarking process.

IOSCO continues to work closely with the International Monetary Fund, the World Bank and other international financial institutions (IFIs) on the use of the IOSCO Principles. Among other types of assistance, IOSCO recommends securities experts to conduct on-site assessments on behalf of the IFIs as part of their Financial Sector Assessment Program (FSAP) and also to provide offsite assistance to the IFIs relating to FSAP assessments.

The Implementation of the CPSS/IOSCO Recommendations for Securities Settlement Systems

IOSCO and the Committee on Payment and Settlement Systems (CPSS) of the central banks of the Group of Ten countries jointly issued their *Recommendations for Securities Settlement Systems* in November 2001.² These recommendations are intended to promote the implementation by securities settlement systems of measures that can enhance international financial stability, reduce risks, increase efficiency and provide adequate safeguards for investors. In March 2002, the Recommendations were added to the list of *key standards* highlighted by the Financial Stability Forum for sound financial systems.³ In January of this year, the CPSS/IOSCO Joint Task Force on Securities Settlement Systems took up the task of preparing a comprehensive methodology for assessing whether a jurisdiction has implemented the Recommendations.

The development of these assessment methodologies reflects IOSCO's ongoing commitment to foster the implementation of the IOSCO Principles and to support the broader initiatives of the international standard setting bodies, the IFIs, and other international fora to promote the implementation of international standards in the financial sector generally.

¹ The IOSCO Principles set out 30 principles of securities regulation, based on three objectives: the protection of investors, ensuring that markets are fair, efficient and transparent, and the reduction of systemic risk. See IOSCO Public Document No. 125 at <http://www.iosco.org/iosco.html>.

² IOSCO Public Document No. 123 at <http://www.iosco.org/iosco.html>.

³ <http://www.fsforum.org/Standards/KeyStds.html>

Multinational Disclosure and Accounting

Significant issues have arisen regarding the practice by some public companies' of publishing in press releases and other corporate disclosures company-specific measures of earnings that do not conform to recognized accounting standards. The IOSCO Technical Committee issued during the conference a cautionary statement alerting public companies, investors and other users of financial information about this practice and advising them to use care when presenting and interpreting such measures. The statement regarding these practices will be published shortly on the IOSCO website.

Following up on its *Resolution Concerning the Use of IASC Standards for the Purpose of Facilitating Multinational Securities Offerings and Cross Border Listings* adopted by the Presidents' Committee in May 2000, IOSCO conducted a survey of the acceptance of International Accounting Standards by IOSCO members. The results indicate that many jurisdictions permit incoming issuers to use IAS, and others are actively working towards this end. Moreover, since May 2000, there have been a number of developments promoting the use of IAS. These include: (i) the decision of the EU Council of Ministers (ECOFIN Council) requiring the use of IAS by 2005; (ii) the completion of the reconstitution of the IASB into a full-time independent standard setter, and (iii) the formation of the Committee of European Securities Regulators with a special sub-group devoted to these issues. Looking ahead, to further these efforts, IOSCO encourages the IASB and national standard setters to work cooperatively and expeditiously to achieve convergence in order to facilitate cross-border offerings and listings and encourages regulators to address the broader issues of consistent interpretation, application and enforcement.

In addition to work on accounting standards, the IOSCO Technical Committee is continuing its efforts relating to international audit standards, including auditor independence, and expects to continue its interaction with the International Federation of Accountants (IFAC) aiming at considering their endorsement.

Corporate Governance in Emerging Markets

The IOSCO Emerging Markets Committee adopted a resolution on corporate governance which recognizes that effective corporate governance is essential to the development of robust, well-regulated capital markets. The IOSCO EMC recommended that its members implement those principles in their legislation, regulations and codes of good practices and use the Organization for Economic Co-operation and Development's "Principles of Corporate Governance" (OECD Principles) as a benchmark.

Development of Corporate Bond Markets in Emerging Markets

The IOSCO Emerging Markets Committee approved publication of a report entitled “Survey on the Development of Corporate Bond Markets in Emerging Market Countries.” This report provides information and analysis on the level of development of corporate bond markets in emerging market jurisdictions. The report also identifies trends and issues relevant to corporate bond market development in those jurisdictions.

Regulation of Market Intermediaries

The IOSCO Technical Committee approved for publication a report entitled “Sound Practices for the Management of Liquidity Risk at Securities Firms.” The report seeks to promote awareness among the industry and regulators of the need for sound liquidity risk management practices to highlight particularly commendable practices and to identify areas for improvement. The report also includes the findings from a study of liquidity risk management practices at a representative selection of major securities firms in nine different jurisdictions.

Investment Management

The IOSCO Technical Committee approved for publication two consultation reports, one entitled “Collective Investment Schemes as Shareholders: Responsibilities and Disclosure” and another entitled “Performance Presentation Standards for Collective Investment Schemes.” The Technical Committee is seeking comments on these reports from the international financial community by 30 September 2002. Interested parties are invited to comment on any aspect of the reports to the IOSCO General Secretariat.

The IOSCO Technical Committee also approved for publication a report entitled “Investor Disclosure and Informed Decisions: Use of Simplified Prospectuses by Collective Investment Schemes.” In this report, the Technical Committee examines how CIS regulators can facilitate informed investor decision-making through prospectus simplification initiatives.

Internet Roundtables

IOSCO will host a series of roundtable discussions to consider the implications of the use of the Internet in securities related activities. Financial service regulators, consumer groups, financial service firms and relevant information services firms, such as Internet service providers, will be invited. The purpose of the Roundtables is to provide regulators and the industry with an opportunity to discuss

existing and emerging practices and risks to consumers and firms and concerns of regulators that arise from the use of Internet-enabled technologies in the securities industry. The first Internet Roundtable will be held in Hong Kong on 24-25 June 2002. Other Roundtables will take place in Toronto in October 2002 and in Amsterdam in March 2003.

Elections

Mr. David Knott, Chairman of the Australian Securities and Investments Commission, was elected Chairman of the Technical Committee and Mr. Jonathan Davis, President of the Comisión Nacional Bancaria y de Valores of Mexico, was elected Vice-Chairman.

Dr. Doğan Cansızlar, Chairman of the Capital Markets Board of Turkey, was elected Chairman of the Emerging Markets Committee and Dr. Bassam K. Saket, Chairman of the Jordanian Securities Commission, was elected Vice-Chairman.

As a result of elections that took place during the Conference, the Executive Committee is now composed of the following members:

- the Chairmen of the Technical Committee and the Emerging Markets Committee: Mr. David Knott, Chairman of the Australian Securities and Investment Commission and Dr. Doğan Cansızlar, Chairman of the Capital Markets Board of Turkey;
- the Chairmen of the four Regional Committees: Mr. Suleyman A. Ndanusa, Chairman of the Africa / Middle East Regional Committee and Chairman of the Securities and Exchange Commission of Nigeria; Mr. Ali Abdul Kadir, Chairman of the Asia Pacific Regional Committee and the Chairman of the Securities Commission of Malaysia; Mr. Stavros Thomadakis, Chairman of the European Regional Committee and Chairman of the Capital Market Commission of Greece; and Ms. Carmen Crépin, Chairperson of the Interamerican Regional Committee and Chairperson of the Commission des valeurs mobilières of Québec;
- nine members elected by the Presidents' Committee: the Comissão de Valores Mobiliários of Brazil; the Commission des opérations de bourse of France; the Bundesanstalt für Finanzdienstleistungsaufsicht (BAFin) of Germany; the Commissione Nazionale per la Società e la Borsa of Italy; the Financial Services Agency of Japan; the Securities Commission of New Zealand; the Financial Services Board of South Africa; the Financial Services Authority of the United Kingdom, and the Securities and Exchange Commission of the United States; and

- four members elected by the Regional Committees: the Jordanian Securities Commission; the China Securities Regulatory Commission; the Comissão do Mercado de Valores Mobiliários of Portugal and the Comisión Nacional de Valores of Argentina.

Finally, Mr. Fernando Teixeira dos Santos, Chairman of the Comissão do Mercado de Valores Mobiliários of Portugal, was elected Chairman of the Executive Committee and Mr. Jeff Van Rooyen, Chairman of the Financial Services Board of South Africa, was elected Vice-Chairman.

All of the above appointments and elected positions are for a two year term.

Training

IOSCO and its members conduct a wide variety of seminars and training programs throughout the year. These programs take place in the regions of the world and benefit from the participation of IOSCO members and the expertise of their staff.

The 2002 IOSCO Seminar Training Program, organized by the IOSCO General Secretariat, will take place in Madrid, Spain in October. This year's program will provide training and assistance to the members engaged in the completion of the important self-assessment of the level of implementation of the IOSCO Principles In their jurisdictions.

SRO Consultative Committee

The SRO Consultative Committee, which represents important (member) self-regulatory organizations, reiterated its continuing commitment to working with the Technical and Emerging Markets Committees on issues of common interest and to provide input from the industry.

Conference Panels

Panel discussions were held on a variety of issues of interest to both regulators and practitioners:

Regulation and Supervision in the Context of a Global Financial Environment

The cross-jurisdictional and cross-sectoral nature of today's financial services industries underscore the importance of close cooperation among financial services regulators and supervisors internationally. Significant technological changes in firms' operations and a corresponding increase in the level of industry competition have been accompanied simultaneously by the globalization, diversification and consolidation of financial firms across sectors and borders. Privatizations, mergers and alliances among

stock exchanges, clearing organizations, and depositories have multiplied worldwide. These developments raise some key regulatory issues, particularly with respect to the risks to which firms and markets are exposed. Through their discussions at the conference, IOSCO members reiterated their intention to cooperate effectively to regulate cross-border financial services.

Misconduct Across Jurisdictions: The Enforcement Challenge

The success of an investigation of an international financial crime often depends on the sharing of information among securities regulators and other supervisors and law enforcement authorities internationally. At the conference, IOSCO members and industry participants discussed the capacity and willingness of securities regulators to implement high quality standards on information sharing and the expansion of the standards to include other financial regulators and law enforcement authorities. IOSCO members also discussed the function that the multilateral IOSCO MOU endorsed at the Conference might serve to expand information sharing and the components of a robust enforcement regime.

Global Portfolio Investments: Opportunities and Barriers in Emerging Markets

Cross-border capital flows and the international diversification of portfolio investments has increased dramatically in recent years. While portfolio investments in emerging markets often provide opportunities for higher returns and risk diversification, investing in these markets also may involve unique risks and difficulties, thus requiring specialized expertise and knowledge. At the conference, IOSCO members discussed the main obstacles to global portfolio investments in emerging markets and potential steps that both an investor and the emerging market could take to address these risks and difficulties.

Securities Analysts

Securities analysts and the firms that employ them confront several types of actual or potential conflicts of interest when providing investment advice. Conferees focused specific attention on the varying roles played by analysts and the manner in which analysts are employed in various jurisdictions. The discussion focused on the types of conflicts that may confront analysts employed by brokerage and investment banking firms.

Corporate Governance

Corporate governance has a significant impact on the efficient operation of private and public institutions and thus on economic growth and development. Inadequacies in corporate governance mechanisms also potentially give rise to systemic risks, particularly if a large financial group were to experience a corporate governance failure. The discussions at the conference focused on the implications of globalization on historic corporate governance practices and principles.

Admission of New Members

During the Conference, IOSCO admitted 1 new ordinary member: the Commission for Securities and Financial Markets of the Federal Republic of Yugoslavia.

IOSCO also admitted two new associate members: the Central Bank of Cyprus and the Conseil des Marchés Financiers of France.

IOSCO also admitted 2 new affiliate members: National Stock Exchange of India Limited and Gre Tai Securities Market of Chinese Taipei

As a result of these new admissions, the membership of IOSCO now stands at 174.

Future Conferences

IOSCO will hold its next Annual Conference in Seoul, South Korea, hosted by the Korean Financial Supervisory Commission / Financial Supervisory Service. IOSCO will hold its 2004 Annual Conference in Amman, Jordan, hosted by the Jordanian Securities Commission and its 2005 Annual Conference in Colombo, Sri Lanka, hosted by the Securities and Exchange Commission of Sri Lanka.

For further information, contact the IOSCO Secretary General, Mr. Philippe Richard, at 34 91 417 5549 or by E-mail: mail@oicv.iosco.org

Endnotes:

1. The IOSCO Principles set out 30 principles of securities regulation, based on three objectives: the protection of investors, ensuring that markets are fair, efficient and transparent, and the reduction of systemic risk. See IOSCO Public Document No. 125 at <http://www.iosco.org/iosco.html>.
2. IOSCO Public Document No. 123 at <http://www.iosco.org/iosco.html>.
3. <http://www.fsforum.org/Standards/KeyStds.html>.