

Keynote Address by Tajinder Singh
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*At the Conference on Deleveraging and Growth in Spain:
Sector Priorities and Strategies on the Road to a Balanced Economy*¹

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This event is happening at a critical time in the world economy, and no one knows this better than you all do. The world's attention is on Spain, not just for the El Clasico at the La Liga, but for other things that are more worrying even to Spanish football fans. We are living at a time of a global financial crisis which started in 2008 as a subprime mortgage crisis and has now gone on to become a full blown sovereign debt crisis. There is deleveraging going on and the question is how we can have growth at such a time, when many banks and financial institutions are subject to more rigorous capital and prudential requirements. The ability of governments to spend more is also severely restricted because of the strain on deficits and ageing populations in the western world. The IMF has also yesterday cut the growth forecast to 3.3%.

We asked these questions recently at our Board meeting last week in a special session in which many top CEOs and CFOs of the biggest banks, CRAs, hedge funds and others. The theme that kept coming up and which helps to answer this question is that "Securities Markets are going to play an important role in the financing of the economy."

I think this is a good moment to mention a few words about IOSCO. The International Organization of Securities Commissions is the global standard setting body for securities regulation, which brings together the world's market regulators. It might be news to some of you that we are headquartered here in Madrid! We have more than 200 members and about 120 of them are regulators of different nations. We are working on important mandates from the G20 and the FSB. The IOSCO objectives and principles of securities regulation are one of the 12 key standards and codes for financial stability. The IOSCO MMoU is the pre-eminent global standard for cooperation relating to enforcement matters, and we will have close to 100 MMoU signatories by the end of the year. It is a really significant cross-border instrument with tough entry conditions as even banking secrecy laws are not allowed to be an obstacle.

¹ Conference organized by the Spanish Institute of Financial Analysts and The Spanish Stock Exchange,

IOSCO's objectives of securities regulation are: investor protection; ensuring that markets are fair, efficient and transparent; and reduction of systemic risk. We had the first meeting of the newly constituted IOSCO Board last week here in Madrid, and you might have seen that we have taken some very significant decisions at the meeting. I will come to them in a moment. As I mentioned earlier, since it was the new meeting of our reconstituted Board, we took the time to talk to CEOs and CFOs from the industry who attended a roundtable on emerging risks so that we could have a fresh perspective at our work.

Coming back to the issue of growth in a deleveraging world, it is clear that securities markets will play an important role in financing the economy. This means that the economy will be dependent on market based financing and the question then is what are the necessary conditions for market based financing to work? I think the single most important condition needed is that there should be Trust - i.e. trust in the system has to be rebuilt. Without trust, investors will not invest. So investors should feel that they are protected, and that they are not being fooled or cheated. Another important element of trust is that the systems and framework in which markets operate should be safe and should be seen to be safe. IOSCO is doing important work in both these aspects of trust.

In terms of the work on making the system safer, IOSCO has this year finalized its report on Principles for Financial Market Infrastructures along with the Committee on Payment and Settlement Systems (CPSS) and is finalizing the assessment methodology, disclosure framework and FMI Resolution report. IOSCO has been working on OTC derivatives reforms in the area of electronic trading, trade reporting and central clearing, and therefore the FMI principles are even more important because a considerable amount of OTC transactions will need to be cleared by CCPs and reported into Trade Repositories. We are also collaborating with the FSB on the project on Legal Entity Identifiers (LEIs) that will make data aggregation and reporting much easier. We have yesterday published IOSCO's recommendations on Money Market Funds that seek to address risks to financial stability due to run risk and first mover advantage. We are also working in the area of securitization to address the risk of originate to distribute models and will come out with a final report by the end of the year. We are consulting members in the area of High Frequency Trading and the consultation period on our draft recommendations ends today. We had published our report on Dark Pools and fragmentation of trading two years ago as part of our work on market integrity and efficiency. After the LIBOR scandal, IOSCO has set up a new Task Force on Financial Market Benchmarks which is co-chaired by Martin Wheatley of the UK FSA and

Gary Gensler of the US CFTC and this Task Force had its meeting last week. It will come out with recommendations in the first quarter of the next year. We have done substantial work on Price Reporting Agencies and have come out with recommendations for PRAs in the oil market. These pieces of work go towards extending the perimeter of regulation.

An important issue in this context is the role of the financial firms and their corporate governance. The LIBOR scandal is an example. I think the choice before firms is either to improve their governance and to actually believe that “honesty is the best POLICY” as this policy in the long run helps in avoiding crises- or the other choice is for scandals to happen and for regulators to keep extending the perimeter of regulation. While the perimeter is extended, there will be prescriptive rules and there could be unintended consequences. So the best way to approach this is for firms to improve their corporate governance.

The other aspect in this effort to rebuild Trust in the financial system is to increase 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. We are also working to set up an IOSCO Foundation with contributions from the private sector to ramp up efforts on Investor Education, Technical Assistance and Research as we believe that these are essential for proper development of securities markets throughout the world.

We are also looking at the area of sanctions regimes in different jurisdictions, because if the players in the financial system do not play as per rules, sanctions should be imposed which are deterrent. We should remember that building trust that is broken is not easy, and therefore there is a need for tough sanctions regimes and for their enforcement. I already mentioned the IOSCO MMOU earlier; this makes it even more difficult for perpetrators of securities market violation to escape. I can mention here that the MMOU was also put to good use in the LIBOR scandal investigations.

I think that if we all collectively succeed in re-building trust, that we play by the rules in letter but also in spirit recognizing that is indeed the best policy that avoids future crises and blow ups, then we can have a sound basis for growth in which securities markets can play an important role. IOSCO is committed to continue its efforts on investor protection and ensuring a fair, efficient and transparent system so that securities markets can play their role in growth and development.