International Organization of Securities Commissions
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Firstly let me say how very pleased I am to be back at the Gulf Cooperation Council Regulators' Summit and to have the opportunity to speak to you again. I am particularly delighted to be here in Dubai, a city I have had cause to visit on a number of occasions. Dubai is truly spectacular – a city that has virtually grown out of the desert in an extraordinary manner.

But this is not surprising given the pre-eminent foundations of this culture and civilization. The Islamic world has made major contributions in the history of science and philosophy as well as other areas including mathematics and surveying. In fact many ideas which were previously thought to have been brilliant new concepts from European mathematicians of the 16th to 18th centuries are now known to have been developed by Islamic mathematicians some four centuries earlier. But would they have envisaged that their concepts would have such diverse application centuries later? Practically everything in our world today has links to mathematics – from information technology to engineering and design, to economics and finance, including those innovative products which originally led to such great prosperity and may also have led us into the current crisis.

This brings me to the unprecedented times in which we meet. For many of us, never before have we confronted such profound and resounding challenges in the financial markets and the world's economies more generally. In the current environment this third Gulf Cooperation Council Regulators' Summit is so very important. The Summit is a critical forum for this region in the context of today's globalized capital markets – especially in this time of international financial crisis.

The underlying foundation of the entire financial system has been exposed to severe risk and it has taken an extreme series of government bailouts and bank acquisitions around the world to attempt to rescue it. The turmoil in turn is affecting economies around the world, with many in recession or heading that way. The challenges of the current crisis are front of mind for all of us – from politicians to regulators, to regulatory institutions and organisations, to businesses and consumers. We are all touched in one way or another.

For the world's capital markets we see a major liquidity crunch from which Islamic finance has not been immune. When addressing your Summit this time last year I was pleased to note the tremendous growth in global demand for Islamic financial instruments. However in this, like many other markets we have since seen a dramatic turnaround.

But we must not despair of markets. History shows that the world will emerge from this crisis – and deep and liquid markets will return. But in the meantime we should take comfort in the Arabic proverb "patience demolishes mountains". The question everyone is asking is: How long will the crisis last? How much patience do we need?

In fact in their paper prepared for the American Economics Association meeting in January, Carmen Reinhart and Kenneth Rogoff address this issue of how long the crisis might last. In their paper entitled "The Aftermath of Financial Crises" they compare the 2007 US sub-prime crisis with previous banking crises of the last 50 years. To quote from their report:

> "An examination of the aftermath of severe financial crises shows deep and lasting effects on asset prices, output and employment. Unemployment rises and housing price declines extend out for five and six years respectively. On the encouraging side, output declines last only two years on average. Even recessions sparked by financial crises do eventually end, albeit almost invariably accompanied by massive increases in government debt."

International cooperation

In this time of truly globalised markets, never before has international cooperation been paramount at every level. This was certainly emphasised in the communiqué of G20 leaders following their meeting last November to address the financial crisis. The G20, with its wide global membership, and notably Saudi Arabia from this region, is itself emerging as a forum of significant importance in reflecting and coordinating a global response to the financial crisis. Most of the measures being implemented have understandably been to address the crisis in the banking sector, to free up inter-bank lending and to provide liquidity to the financial system. There is also emerging a far greater examination of the causes of the crisis, the drivers of the current volatility and the risk assessment needed to ensure such a crisis does not occur again. The mischief which caused the crisis occurred largely in the capital markets and much of that work will need to be done by the conduct regulators around the world.

IOSCO

In relation to the regulation of capital markets, IOSCO, the International Organization of Securities Commissions, is a pivotal organization to facilitate a cooperative solution. In fact the G20 leaders have recognised the significance of IOSCO's role and suggested it examine a number of projects to address growth in capital markets.

As the global standards setter it leads the thinking on ways to address the challenges for securities regulators amid today's capital market instability. And this doesn't just relate to only the conventional finance markets. An IOSCO taskforce which was specifically set up to look at the Islamic capital market recognised the importance of Islamic finance products in the global securities market and the relevance of the IOSCO standards to these products.

Today I'd like to update you on recent developments with the work of IOSCO in responding to the financial crisis and the implications for the future regulatory landscape. But first, to re-familiarise you with the organisation whose governing body, the Executive Committee, I have had the privilege to chair for the last four and a half years. IOSCO's vision is for the world's markets to operate on sound principles and standards, and for regulators to cooperate and exchange information across borders. It aims to ensure that markets are fair, efficient and transparent; to protect investors; and to reduce systemic risk.

With its 109 member regulators IOSCO actively promotes its 30 broad Principles for securities regulation for full implementation in the regulatory framework of every member jurisdiction. IOSCO has developed the mechanism to share information and cooperate to engage in effective enforcement across borders through its Multilateral Memorandum of Understanding (IOSCO MMOU) to which member regulators can sign up. IOSCO is pivotal in bringing together securities regulators from around the world to address global problems, and its Principles and MMOU are fundamental building blocks to the achievement of cooperation.

IOSCO recognises that investor confidence and transparency are fundamental to the success and liquidity of markets. It also acknowledges that regulation should be cost effective and not undermine the benefits of free markets. Regulation should especially be aimed at ensuring that a sound market infrastructure exists, which means: sufficient transparency (both in relation to the securities that are traded and how market participants are rewarded); strong clearing and settlement processes; and robust enforcement systems targeted at market abuse.

Response to the crisis

IOSCO offers the global reach and technical expertise necessary to assist policymakers to develop and implement common global regulatory solutions in response to the global crisis. Building on its existing principles for high quality securities regulation, IOSCO, before the crisis, was already examining ways to address some of the regulatory gaps which have now been starkly exposed by the crisis.

One of these is the area of credit rating agencies. They have certainly attracted significant attention during the crisis with questions raised about the integrity of the processes they used and the reliability of the ratings for complex financial instruments. A perception of conflict of interest was created by the fact that they provided advice on how to structure these financial products to obtain certain ratings and then went on to rate them. IOSCO, in updating its Code of Conduct for Credit Rating Agencies, suggested refinements to enhance the quality and integrity of rating processes, avoid conflicts of interest, and clarify the responsibilities of CRAs to the investing public and to securities issuers.

IOSCO's taskforce on credit rating agencies will soon be publishing a report on the level of compliance with the IOSCO Code of Conduct. IOSCO has identified key measures which it believes will contribute to improved international monitoring of credit rating agencies and serve to address the issues that have contributed to the failures in the market for structured finance products market. In particular, IOSCO favours a consistent global regulatory approach to monitoring the activities of CRAs. It urges legislators to consider the regulatory consensus represented by the IOSCO Code of Conduct when framing local legislation as any fragmentation runs the risk of a reoccurrence of problems with product ratings.

In November last year IOSCO wrote an open letter to the G20 Leaders Summit setting out the views of global regulators in relation to the steps needed to address the ongoing financial crisis, the role to be played by securities regulators and the work it had already done in response to the crisis and in the wider development of sound securities regulation. To assist the G20, IOSCO set up three new taskforces to look at short selling, unregulated financial markets and products and unregulated financial entities.

The taskforce on short selling will shortly be publishing for public consultation a report that sets out four general principles on the regulation of short selling. It recognizes that there are great differences in the regulation of short selling across jurisdictions, and will welcome input to further develop principles following consultation with industry and the public.

IOSCO is well-positioned to make recommendations based on the deliberations at the G20 Summit because we have developed a network of trust and confidence among regulators around the world who are looking at the policy options for the future.

The taskforce on unregulated financial entities is examining issues surrounding such entities, including the development of recommended regulatory approaches to mitigate risks associated with their trading and traditional opacity. It is looking at the risks posed by hedge funds to capital markets, and the current level of regulation of hedge funds. An important issue is how hedge funds should be regulated given the different approaches across jurisdictions.

The taskforce on unregulated financial markets and products is examining ways to introduce greater transparency and oversight to unregulated market segments, such as OTC markets for derivatives and other structured financial products.

The under-regulated parts of the market and unregulated products – the largely opaque areas – contributed to the volatility of the global markets.

Another focus for IOSCO has been international financial reporting standards and the accountability of the standard setter to the community of national authorities responsible for reporting by public companies. An IOSCO technical committee is closely monitoring the International Accounting Standards Board (IASB) work that is focused on off-balance sheet reporting and on fair value accounting in the context of inactive markets.

IOSCO strongly supports accounting standards that afford investors transparency, maintain market integrity and facilitate capital formation. IOSCO also supports the development and use of robust, internationally accepted, and consistently applied financial reporting standards. To achieve such standards, the standard setting process must be accountable and subject to appropriate consultation. IOSCO is working with the International Accounting Standards Committee Foundation, to establish a Monitoring Board. This will enhance the accountability of the IASB and the International Accounting Standards Committee Foundation to capital market authorities.

I would like to mention here that I have the privilege to be a member of the Financial Crisis Advisory Group set up in December by the IASB and the United States Financial Accounting Standards Board. This group will be reporting back to those boards mid-year about standards setting implications of the global financial crisis and potential changes to the global regulatory environment. It is my personal expressed view that restoring investor confidence should be the number one priority for standards setters when considering any changes to reporting standards.

The changing nature of the international financial system in this time of crisis compels organizations such as IOSCO to reflect such changes in the composition of their memberships. In this vein IOSCO's Technical Committee, which is the standards setting body of the organization, decided at its February meeting in Washington DC to invite securities regulatory authorities from Brazil, China and India to become members of the Technical Committee. These new members were chosen on the basis of the size of their capital markets, the international nature of their markets and the development of their regulatory system and authority and their commitment to IOSCO.

There had been a belief, as outlined by Alan Greenspan in his evidence before the US Congress, that certain unregulated parts of the market would discipline themselves. Clearly, that did not happen and will not happen.

But the real challenge in difficult times is to ensure that a measured and balance approach is taken. It is absolutely critical to the development of capital markets and the ensuing growth of economies that we facilitate these markets. So we must not take the course which would lead to over-regulation.

In addressing this challenge I am convinced that cooperation between regulators is imperative.

Cross border activity

The globalization of capital markets requires new tools to ensure consistency of approach to cross-border activity. A number of mechanisms have been suggested. Colleges of Supervisors are one development heralded to oversee financial institutions operating across borders. Another mechanism is that of mutual recognition.

In my own part of the world, New Zealand and Australia last year introduced mutual recognition of securities offerings. This regime allows New Zealand businesses to raise capital in Australia using New Zealand offer documents - and vice versa. Investors will also benefit from having a wider choice of investment opportunities.

Mutual recognition does not require the adoption of identical legislation. Rather than envisaging standardized model frameworks across jurisdictions, it allows domestic laws and regulations to reflect national imperatives while providing the capacity for cross-border cooperation and enforcement.

To work effectively, mutual recognition requires coordinated responses and consistent approaches to regulating cross-border transactions. As a first step to achieving mutual recognition, there must be agreement on a common basis of principles on which to assess the effectiveness of foreign regulations and the work of the foreign regulator. The IOSCO Principles provide such a basis. Another important element of any mutual recognition arrangement will, of course, be the ability for regulators to share information and cooperate to engage in effective enforcement across borders. To this end too, IOSCO's Multilateral Memorandum of Understanding (IOSCO MMOU) that I mentioned earlier, provides a fundamental tool to achieving this. We are well on the way to achieving all IOSCO members signing on to one or other appendix of that memorandum by 2010.

Hopefully these mechanisms will lead to a world-wide raising of standards as each jurisdiction strives to ensure its standards are high enough to be considered equivalent to others and to enable effective cross border regulation.

Conclusion

To conclude, I cannot overemphasize the importance of cooperation in these turbulent times. We are all confronting the global financial crisis – conventional and Islamic markets alike. As the global standards setter IOSCO is playing a lead role in facilitating a cooperative solution to the challenges faced by securities regulators amid today's capital market instability. By working together we aim to foster fair, transparent international markets that investors can have confidence in. Finally let me say that this forum provides an excellent opportunity to address the challenges and I look forward to the ensuing discussions.

Thank you.