



ASIC

Australian Securities & Investments Commission

Challenges and strategies for IOSCO

*Speech by Greg Medcraft, Chairman
Australian Securities and Investments Commission*

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I'd like to thank Barbara Ridpath and the International Centre for Financial Regulation for inviting me to meet with you today.

When I was in London last year, I spoke about ASIC's strategies to address what we see as our domestic challenges. My focus was on our priorities of supporting confident and informed investors and financial consumers and on the measures we are taking to address systemic risk.

Today, I'd like to focus on the international dimension and to talk in particular about IOSCO – the International Organization of Securities Organisations.

What is IOSCO?

IOSCO is an international grouping of securities regulators drawn from over 100 jurisdictions. Together, we are responsible for regulating more than 95% of the world's securities markets.

IOSCO develops guidance and standards for regulators and policy makers in both developed and emerging markets. It's supported by a secretariat based in Madrid.

Why is IOSCO important?

IOSCO is important for three reasons:

One, globalisation is continuing, with more markets and products crossing jurisdictional borders. This means any inconsistencies or differences in regulatory frameworks increases the cost of business and this can hinder economic growth. IOSCO counteracts this by developing global standards and principles and promoting harmonisation of regulation between different jurisdictions.

Two, new, emerging markets are being developed as advanced economies look for new sources for economic growth. It's important to have a global rulebook that these emerging markets can look up to and follow, so that we avoid the fragmentation of markets. IOSCO can develop this global rulebook.

And three, market-based financing is growing in importance. It's seen as key to funding economic growth as business requires access to capital at low cost. This shift from the banking sector to the securities sector means securities regulation and securities regulators become more important.

In summary, IOSCO is important to business because capital markets that are harmonised between jurisdictions is very important. Emerging markets need a global rulebook to follow in order to avoid fragmentation of markets. And finally, market-based financial is growing in importance which means securities regulation and regulators become more important.

I have been fortunate to be appointed as Chairman-elect of the Board of IOSCO. My term begins in March next year.

I'd like to make IOSCO the key authoritative body for securities regulation (in the same way that the Basel Committee is for banking regulation and supervision).

I want it to be proactive, forward looking and effective – focused on the risks it sees on the horizon while addressing the failings of the past.

Challenges

I see three key challenges facing IOSCO.

One, the migration of savings from the banking regulatory perimeter to the securities perimeter and with it the increased significance of securities regulation. This is driven in part by more intense regulation in the banking sector and in part by investors' search for yield.

Two, the pace of financial innovation and the ongoing risk that it will outpace regulation. History has shown us that crises are often the result of innovation outpacing regulation.

And three, the continuing globalisation of financial markets and products. Global markets and products require a global approach to regulation.

By bringing together regulators from developed and emerging economies, IOSCO is the appropriate forum to address these challenges. It provides an efficient way of sharing information and ideas, and it builds the trust which underpins cooperation.

Strategy to overcome these challenges

I see three steps to overcome these challenges.

Engagement

The first step is engagement.

IOSCO must ensure it remains an effective forum for regulators to engage and work together.

And IOSCO has done this well. It's been effective in building trust and understanding between regulators from different markets which may have different philosophies about regulation.

Equally important is engagement with industry. Consultation with industry is fundamental to good policy development. For the first time, we will be inviting industry leaders to IOSCO's board meeting later this year to discuss industry's views of emerging risks and issues in securities markets.

Finally, engagement with policy makers is essential as IOSCO needs to influence and even initiate law reform across jurisdictions.

I see building and harnessing these relationships as providing a solid foundation for becoming the key body for securities regulation.

Cooperation

The next step is cooperation.

Enforcement – IOSCO has a great track record in building frameworks such as our Multilateral MoU on cooperation and information sharing. This works well in enforcement matters that span multiple jurisdictions.

Investigations – However, we need to go further. The reality of global markets is that our major market players are active in many jurisdictions. IOSCO should be facilitating cooperation in the supervision of these global market players and in cross-border investigations.

Another element to cooperation is providing technical assistance to regulators in emerging markets. Seventy-five per cent of IOSCO's members are from developing countries. IOSCO needs to deliver its vision for these members. It has a responsibility to support them in implementing standards and ensuring those standards are effective.

We should also cooperate with industry – the IOSCO Foundation is a joint venture with industry to provide technical expertise and conduct capital markets research.

Standard setting

The third step to overcoming the challenges ahead is setting high quality standards that are relevant and timely.

We need to evolve from setting best practice principles to setting standards.

How we develop that guidance is also important. We will get there by moving from a member-driven to a more member-directed organisation (where policy work is undertaken by the secretariat).

At present, IOSCO operates on strict consensus. This has led to many compromises. We need to consider the benefits of moving to some form of consensus minus two (majority voting) – similar to that used in Europe. This will help us achieve the right regulatory outcomes.

Mutual recognition – finally, it is critical to have consistent implementation of the principles we develop. There is no point in developing standards unless they are implemented on a consistent basis. IOSCO has to play a key role in encouraging jurisdictions to recognise regulation and supervision in other jurisdictions (through passporting, mutual recognition or substituted compliance arrangements).

So, in summary, my vision is for IOSCO to develop into an effective, forward-looking and proactive organisation which is the key authoritative body for securities regulation. I aim to meet this challenge with a strategy based on each of the elements I've outlined: engagement, cooperation and standard setting.

I am happy to take questions and to hear your views on these ideas.