

CAMBRIDGE SYMPOSIUM ON ECONOMIC CRIME

SPEECH BY MR. PHILIPPE RICHARD IOSCO SECRETARY GENERAL

4 September 2006

Introduction

Chairman, Fellow Panelists, Colleagues, Ladies and Gentlemen,

Allow me to begin firstly by thanking the University of Cambridge, Professor Barry Rider and symposium organizers for their kind invitation to participate in this event. Looking at the program that is before us this week, I must say that it is certainly to their credit that they have managed to arrange such a stimulating forum.

Since there are so many issues to cover in this program including on this introductory panel, I intend to be as brief as possible in my remarks. Essentially, I have broken my contribution into several sections commencing with some background on who IOSCO is and what our organisation does before moving onto some specific actions we have taken in the fight against financial crime.

IOSCO – Background, Objectives

For those of you not so familiar with our organisation and the increasing prominence being given to international regulatory standards, I would like to take this opportunity to provide some relevant background.

IOSCO is the world's leading forum for standards setting and cooperation on all matters related to securities regulation. Its members include securities regulators and other relevant national bodies from more than 100 countries around the world. Together our

members regulate more than 90% of the world's securities markets making the spread of our membership base exceptional among international organisations.

IOSCO is well recognized internationally for the unique regulatory role it plays in the global financial community. We work with the Basel Committee on Banking Supervision and the International Association of Insurance Supervisors within a body known as the Joint Forum. This body functions at the highest level in dealing with a range of cross-sectoral issues including, for example, credit risk transfer and risk management techniques.

IOSCO has three core objectives which together aim to deliver better standards of international regulation. These are:

- to protect investors;
- to make markets fair, efficient and transparent; and
- to reduce systemic risk.

IOSCO Principles

Our core objectives are embodied in what is known as the *Objectives and Principles of Securities Regulation* endorsed by the Organisation in 1998. These Principles represent a centerpiece of IOSCO outcomes and they underpin the mission of the organisation in striving to deliver concrete guidance and better standards of corporate governance and integrity within financial markets.

Together these 30 principles cover a wide range of areas relating to regulators, their activities and their enforcement of securities regulations, co-operation in regulation and fundamental governance principles affecting issuers, collective investment schemes, market intermediaries and secondary markets.

The IOSCO Principles establish high level benchmarks for the regulatory system in any country. Here are four examples:

- the regulator should be operationally independent and accountable in the exercise of its functions and powers;
- the regulator should have comprehensive inspection, investigation and surveillance powers;
- the regulatory system should allow for assistance to be provided to foreign regulators who need to make inquiries in the discharge of their functions and exercise of their powers;
- there should be full, timely and accurate disclosure of financial results and other information that is material to investors' decisions.

I have included the examples related to the regulator in particular because even the causal observer will note why these start to take on some significance in the fight against financial crime. Needless to say, where you have a strong independent regulator, properly resourced, able to share information with other regulators and able to enforce standards dealing with fundamental principles of good corporate governance, there is no doubt that there is an increase in one's ability to be more effective in the fight against financial crime.

IOSCO Activities –The Fight against Financial Fraud

Around eighteen months ago, IOSCO released a landmark report outlining the measures that needed to be taken in strengthening capital markets against financial fraud. This report was the result of an in-depth study of the financial scandals of a few years ago involving large, global companies and represented a top-to-bottom review of securities markets regulation aimed at identifying possible weaknesses in the international financial system and how these weaknesses could be addressed.

As many of you will be aware, the early part of this century was a period marked by a series of several well-known companies becoming mired in financial scandal. In some of these cases, investors collectively lost hundreds of millions of dollars. A number of the companies were forced into bankruptcy as a direct or indirect result of these collapses.

Taken together, these financial scandals caused many, particularly in governments, to become concerned about investors' confidence in the integrity of global capital markets.

In the aftermath of these corporate collapses, IOSCO recognised that reassuring investors about the integrity of global capital markets was essential to financial stability and economic prosperity. Consequently, the organisation formed a high-level Task Force charged with inquiring into the regulatory issues exposed by these corporate collapses and to identify any broad trends.

Following the presentation of the Task Force's work, IOSCO adopted an ambitious Action Plan to address a broad number of issues. This reflected the fact that in the course of their work the IOSCO Task Force considered a broad range of issues affecting existing corporate governance structures; auditor standards; continuous disclosure principles; bond market regulation and transparency; roles and obligations of market intermediaries; variations in corporate structures; and the role of private-sector information analysts.

Although IOSCO was satisfied that in many cases, existing regulatory principles to address weaknesses in capital markets already existed, there nevertheless remained a vital need for the universal implementation of those principles. This was considered essential in order to overcome potential regulatory deficiencies that might arise especially given the cross-border operations of many issuers in today's capital markets. In other words, having the principles was of its own insufficient. There was also a need to follow-up those principles to ensure that they were being implemented.

IOSCO MOU

Accordingly IOSCO recognised the need to have more widespread implementation of what is known as the IOSCO Multilateral Memorandum of Understanding (MOU) as a benchmark standard. As an instrument in the enforcement of international securities regulation, these days the IOSCO MOU is considered essential since it enables the greater sharing of information across borders thus smoothing the way when it is

necessary for enforcement action to be taken against those who have broken corporate or securities laws.

Adopted in May 2002, the IOSCO MOU essentially facilitates the investigation and prosecution of international securities fraud along with the development of an effective network of administrative and enforcement cooperation among securities regulators which. The IOSCO Task Force had essentially concluded that this should be a high priority in the fight against financial fraud.

As securities regulators around the world progressively sign onto the IOSCO MOU, they will create an ever expanding network for cooperation that should over a period of time, improve the scope for information gathering and enforcement activities. As of today I can report that 43 regulators have signed or committed to sign representing nearly 40% of the total IOSCO membership which have now dedicated to this new collective tool.

It is important to note however that strengthening capital markets against financial fraud is not something securities regulators can do alone. Even with the highest quality regulatory standards, fully implemented and enforced, it will not be possible to totally eliminate financial fraud. It takes vigilance by all stakeholders including corporate issuers, investors, auditors, analysts, intermediaries as well as regulators alike in order to minimize market misconduct.

International Collaboration

In some instances, IOSCO will be working with its colleagues in the international financial community. As mentioned previously we work with both the Basel Committee on Banking Supervision as well as the International Association of Insurance Supervisors on a number of cross-sectoral issues. Fortunately, all three international organisations have a strong collaborative relationship because we have long since recognised that achieving agreement on international principles is a fundamental element of our mission.

In the field of investor protection for instance, IOSCO has maintained a strong focus on the need to strengthen this through adequate disclosure and suitability mechanisms while our partners in banking have focused more on the protection of the financial institutions and its depositors.

Although they retain slightly different missions, mention should also be made of bodies such as the IMF, the World Bank, the FATF and the OECD. With all these bodies, IOSCO retains a healthy relationship based on coordination and cooperation.

In the case of the OECD for instance, IOSCO continues to carry out follow up work on the issue of corporate governance standards. This too arose from our Task Force which carried out the initial mandate on financial fraud and which subsequently gave rise to the creation of a separate task force dealing with corporate governance issues and which should be in a position to report later this year.

Summary – Conclusions

In summary, IOSCO's work in the fight against financial fraud has underscored the fact that given the increasingly global nature of modern capital markets, enforcement agencies must have the capability to take effective action in their investigations including the ability to directly share enforcement related information.

Our work in this area has confirmed that in modern capital markets, cross-border enforcement cooperation is, and will continue to be, one of the most important tools which securities regulators and law enforcement authorities have at their disposal to prevent, deter, detect and prosecute against financial crime.

Nevertheless, it is also important to recognise that even with the highest quality regulatory standards, fully implemented and enforced, it will not be possible to totally eliminate financial fraud. It takes constant vigilance by all stakeholders.

For our part, IOSCO is committed to working with all parties to better protect the integrity of global capital markets. Through active cooperation and the implementation of existing standards, we believe that this work will go a long way to significantly strengthen capital markets further by making the occurrence of financial fraud much more difficult to accomplish, easier to detect and less damaging to investors, if and when it does occur.

Thank you.

[ENDS]