

IOSCO Emerging Markets Committee Luncheon Address
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Introduction

It is a privilege and a pleasure to speak to you today. Let me start by saying that the work of the Emerging Markets Committee is extremely important to IOSCO, and to the development of efficient and fair capital markets in the world's most dynamic and rapidly evolving economies.

Emerging markets are a "hot topic" in economic discussions by commentators, analysts and policy-makers. Ben Bernanke, Chairman of the US Federal Reserve Board, notes that the economic growth of emerging markets has great significance for the world. He sees this growth as "a powerful wave of worldwide economic integration and increased economic interdependence". Both of these are "occurring on a scale without precedent in history". He identifies growth in capital market flows, and the array of securities traded in these markets, as characteristics of economic integration and interdependence in 2006 and beyond.

China

This week we meet in the People's Republic of China, a dynamic and rapidly evolving economy indeed! And here in the prosperous and beautiful city of Shanghai, the signs of China's progress are all around us.

China has achieved extraordinary growth in industry, commerce and trade, which will undoubtedly continue throughout the 21st century. Today, China's economy accounts for 4 per cent of global economic output, but that figure is forecast to reach 10 per cent within 20 years. We in New Zealand particularly value China as an important trading partner. At the end of last year China accounted for some 11% of our imports and 5% of our exports. And we are currently negotiating a bilateral free trade agreement with the authorities of your People's Republic.

Within IOSCO, we applaud the work of the China Securities Regulatory Commission in developing your capital markets. We note the reform of share structures in stock exchange-listed companies, the raised standards for financial reporting and corporate governance, and actions against money laundering and other economic crimes. These developments will bring increased confidence among investors, both domestic and foreign. Confidence, as we all know, is the foundation for growth and stability in the capital market of any economy and in the global capital market, on which all economies increasingly rely.

I would like to thank the Commission and Chairman Shang Fulin both for their hospitality this week, and for their contribution to IOSCO. Indeed, our organisation is seeing China take a leadership role consistent with its important status as an economic power. I was delighted that Chairman Shang was elected Vice Chairman of the IOSCO Executive Committee at the annual conference in Hong Kong three months ago. He, alongside EMC Chairman Mr Damodaran and Chairmen Khun Thirachai, Mr Musa Al-Faki and Mr Narcisco Muñoz, who chair IOSCO's Asia-Pacific, Africa-Middle East and Interamerican Regional Committees,

will be strong voices for the emerging markets as we work to implement global standards for securities market regulation.

IOSCO's Vision

IOSCO has a strong vision for the future. By 2010, we want all members – and today they include regulators in 108 jurisdictions – to implement IOSCO's 30 core Principles of securities regulation, or have a clear strategy for doing so. The Principles lay the basis for sound, consistent securities regulation in all markets, while allowing for differences in regulatory structures and processes.

As part of this vision, we also want to see all members signed up to the *IOSCO Multilateral Memorandum of Understanding on Consultation, Cooperation and Exchange of Information*. The "IOSCO MOU", for short, enables regulators to cooperate on enforcement in a timely, seamless manner. This is vital as capital markets become increasingly global. Last year, we set 1st January 2010 as a deadline for all members to become either full signatories or appendix B signatories to the MOU. Appendix B signatories are committed to securing the capabilities and powers needed to become full signatories to the IOSCO MOU.

At our conference in June, members were strongly of the view that implementing the IOSCO Principles, and cross-border cooperation between regulators, will bring major benefits to securities markets worldwide – and hence, to investor confidence.

Emerging Markets

Emerging markets have a crucial role in achieving the IOSCO vision - for two reasons. First, emerging markets are extremely important in the global economy and capital markets. And second, the standards set by the IOSCO Principles and the MOU present a challenge for regulators and policymakers in many jurisdictions.

On the first of these two points, as I said at the beginning, there is an increasing awareness of the contribution that emerging markets are making, and will continue to make, to the global economy. Earlier this year, *The Economist* magazine published an analysis of economic growth among 32 "emerging" economies. It found that their economic output accounts for more than half the global output. Indeed, their contribution to total growth in 2005 was significantly above that of the more mature market economies. Of course, the extraordinary performances of China and India are major factors. The GDP growth of these two economies accounted for one fifth of the total GDP growth of the 32 emerging economies. Many other jurisdictions have been flexing their economic muscles as well.

The 32 emerging economies accounted for 42 percent of global exports and held two-thirds of the world's foreign exchange reserves. According to *The Economist*, the era of rich nations dominating the global economy may be over – not that this is any cause for concern while markets remain open and competitive, and global economic growth delivers benefits for all.

One feature of this new era is the large flows of capital from emerging to more mature market economies – a striking reversal from the direction of capital flows in earlier decades. The United States, the world's largest economy, today runs a current account deficit funded mostly by capital exports from emerging markets. However, foreign direct investments and other private capital flows to emerging markets remain strong. Some of the emerging market stock exchanges had turnovers among the highest in the world.

These developments are confirmed in reports of the IMF and the World Bank which show that the global economy and financial markets have performed well in recent years. This is partly a result of improved macroeconomic performance in emerging market countries and gradual liberalization of cross-border trade in financial assets. Financial development affects the ability of emerging market jurisdictions to attract private capital flows and use them for domestic investment.

This brings me to the second point – the challenge of global standards for securities regulation. Increased economic integration means that any malfunction in one market can rapidly have significant repercussions in other markets. It also means that international financial crime has no boundaries. These bring increased risk. To reduce the risk there must be sound and consistent regulation in all jurisdictions and effective cooperation among regulators.

Principles Implementation

To achieve the IOSCO vision for 2010 we need to speed up implementation of the IOSCO Principles and encourage greater commitment to cross-border cooperation between regulators. In many jurisdictions regulatory reforms are underway and it is important that these meet IOSCO's standards. This point was strongly made by Mr. Doğan Cansizlar, the then Chairman of the Emerging Markets Committee, at the annual meeting in June. Mr Cansizlar also promoted the need for IOSCO to provide technical assistance for regulators.

I commend regulators and policymakers in emerging markets which have embraced the IOSCO Principles and MOU. It was very pleasing to see the Securities and Exchange Commission of Nigeria join the MOU as a full signatory earlier this year. There are now 34 signatories, almost one third of all IOSCO members including several from emerging markets. Appendix B lists regulators who have committed to becoming full signatories in a reasonable timeframe. It is pleasing to see that the Securities and Exchange Commission of Thailand is the latest signatory to appendix B and that the Israel Securities Authority is the first regulator formerly on appendix B to become a full signatory on appendix A.

I would make the point that some jurisdictions in mature markets have yet to fully implement the IOSCO Principles or become full signatories to the MOU. Gaps in implementation are revealed through the Financial Sector Assessment Programme of the World Bank and IMF. This programme, known as FSAP, reviews the regulatory framework of a jurisdiction, using the IOSCO Principles and the IOSCO Assessment Methodology as benchmark for the securities sector.

The IOSCO Assessment Methodology is a tool for jurisdictions to measure their compliance with the Principles. IOSCO can assist members with their self-assessments.

When New Zealand was subject to an FSAP review in 2003, it was found that two of the 30 IOSCO Principles had not been implemented - a situation that the Securities Commission and the Government are rectifying. It is important to note that the call to action among IOSCO members by 2010 is by no means confined to members with emerging markets!

Interdependence

We live in an interdependent world. This arises from the integration of national economies and markets, and the growth of capital flows across borders. The challenge at both national and global levels is to build consensus for change so that the benefits of economic integration are widely shared and continue to increase.

IOSCO is well-fitted for an interdependent world. IOSCO brings regulators from 108 jurisdictions together so that all can benefit, without loss of independence. IOSCO recognised the interdependence of capital markets from the outset. It developed, by consensus, the Principles for securities regulation that enable each of us to more effectively regulate our own markets as part of an interdependent world.

As well, IOSCO has developed tools and programmes, including expert assistance, to help members to implement the Principles and raise the standard of regulation worldwide.

IOSCO itself is interdependent with other organisations in the global financial community - notably the World Bank, the IMF, the Basel Committee on Banking Supervision and the International Association of Insurance Supervisors. There is mutual respect and cooperation between these bodies, and a willingness to share ideas and information. Use of the IOSCO Principles by the World Bank and the IMF for their FSAP is just one example.

Interdependence has increased IOSCO's role and responsibilities and the role and responsibilities of each of its members. I cannot emphasise enough the value to all members of implementing and using the Principles established through our common organisation that is IOSCO. They benefit each regulator, and ultimately have benefits for the growth and stability of capital markets throughout the world.

There is a Chinese proverb: *Distant water will not put out a fire close at hand*. Perhaps many of us see "fires" in our markets - poor corporate governance, manipulation of securities prices, economic crimes and others. IOSCO's Principles are the "water" that will extinguish these problems. And I encourage all IOSCO members to bring them "close at hand", where they can be used to make our markets fairer and more efficient.

Concluding Comment

I conclude by again acknowledging the importance of emerging markets to the vision of IOSCO. Many observers, business people and policy-makers, watch the economic achievements of China and other jurisdictions with emerging economies with awe and also with expectation.

The increasing economic strength of these jurisdictions brings with it increasing responsibility to help ensure the growth and stability of capital markets in an interdependent world.

I am confident that the implementation of IOSCO's Principles will continue apace, and that cooperation between regulators through the IOSCO MOU will increase.

In these ways the IOSCO vision for 2010 can be attained.

Thank you. //