

REGULATION OF SECURITIES MARKETS

INTERNATIONAL STANDARDS

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**THE SIXTH OECD CONFERENCE ON FINANCIAL SECTOR
DEVELOPMENT IN THE CENTRAL ASIAN COUNTRIES,
AZERBAIJAN AND MONGOLIA**



RISING IMPORTANCE OF CAPITAL MARKETS

- **The role of securities markets increased globally**
- **Securities markets offer an alternative source of intermediation**
- **Securities markets reduce cost of capital, increase savings and investment**
- **Investor confidence is the key in securities markets**
- **Securities regulation address this through regulation of issuer disclosure and accounting and audit standards**



ECONOMIC GROWTH IN DEVELOPING COUNTRIES AND CAPITAL FLOWS - 1

- **Globalization caused a surge in capital flows**
- **Financial Globalization could help raise growth rates in some developing countries**
 - **Augmentation of domestic savings, reduction of cost of capital, etc**
 - **Competitive pressures and discipline effect of globalization**
- **A number of countries have experienced financial crises**



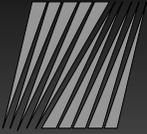
ECONOMIC GROWTH IN DEVELOPING COUNTRIES AND CAPITAL FLOWS - 2

- **Good macroeconomic policies and good domestic governance create the difference.**
- **Components of capital flows are;**
 - **Portfolio Flows**
 - **Bank Borrowing**
 - **Foreign Direct Investment (FDI)**



GLOBALIZATION AND CONVERGENCE OF SECURITIES REGULATIONS - 1

- **The importance of securities regulation increased in recent years**
- **Investors can buy securities anywhere in the world round the clock**
- **Strong links among financial markets requires some kind of standardization or convergence in regulations**
- **Despite globalization there are differences between jurisdictions due to unique characteristics**



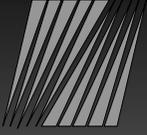
GLOBALIZATION AND CONVERGENCE OF SECURITIES REGULATIONS – 2

- **If developing countries can adopt the standardization or convergence in regulations, they can attract foreign investors**
- **IOSCO is an important platform for this convergence and standardization to take place**



THE ROLE OF IOSCO IN SETTING INTERNATIONAL STANDARDS FOR SECURITIES REGULATIONS

- **The Role of IOSCO**
 - **Establishing high standards of regulation**
 - **Promoting cooperation, exchange of information and mutual assistance among its members**
- **The IOSCO Membership**
 - **181 members from over 100 jurisdictions**
 - **74 members in the EMC**
 - **3 members from the Central Asian Region**



IOSCO PRINCIPLES AND OBJECTIVES OF SECURITIES REGULATION



THE IOSCO OBJECTIVES AND PRINCIPLES OF SECURITIES REGULATION - 1

- **First published in 1998**
- **Aim to meet the need of international consensus on sound prudential principles and practices for Securities Regulation**
- **Provide information for effective Securities Regulation**
- **Need to be implemented under relevant legal infrastructure**



THE IOSCO OBJECTIVES AND PRINCIPLES OF SECURITIES REGULATION - 2

- **The IOSCO Principles are based on three basic objectives**
 - **The protection of investors**
 - **Ensuring that markets are fair, efficient and transparent**
 - **The reduction of systemic risk**
- **The IOSCO Principles are established in 8 broad categories**



8 CATEGORIES OF IOSCO PRINCIPLES

- 1. Principles Relating to the Regulator**
- 2. Principles for Self Regulation**
- 3. Principles for the Enforcement of Securities Regulation**
- 4. Principles for Cooperation in Regulation**
- 5. Principles for Issuers**
- 6. Principles for Collective Investment Schemes**
- 7. Principles for Market Intermediaries**
- 8. Principles for the Secondary Market**



1. Principles Relating to the Regulator

- **Clear and objectively stated responsibilities**
- **Operational independence and accountability**
- **Adequate powers, proper resources and capacity**
- **Clear and consistent regulatory processes**
- **High professional standards**



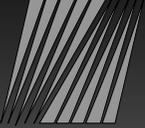
2. Principles for Self Regulation

- **Appropriate use of SROs for the size and nature of the market**
- **Direct oversight responsibility of the regulator**



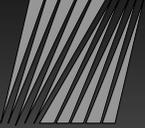
3. Principles for the Enforcement of Securities Regulation

- **Comprehensive inspection, investigation, surveillance and enforcement powers**
- **Effective and credible use of powers and implementation of enforcement programs**



4. Principles for Cooperation in Regulation

- **Sharing information with foreign counterparts**
- **Establishing mechanisms for sharing information**
- **Providing assistance to foreign regulatory authorities**



5. Principles for Issuers

- **Setting and enforcing disclosure standards for offering documents**
- **Establishing high quality standards for accounting and auditing**
- **Setting rules requiring timely disclosure of material events by the issuer**
- **Making the necessary arrangements for the fair and equitable treatment of shareholders (i.e. the designation of insiders, corporation, disclosure and effective monitoring of insider transactions and take-over rules)**



6. Principles for Collective Investment Schemes

- **The eligibility standards for those who wish to market or operate a collective investment scheme**
- **Supervision over operators**
- **Prescription of the legal form and structure of funds and the segregation of client assets**
- **Disclosure requirements**
- **Proper and disclosed basis for asset valuation and pricing**



7. Principles for Market Intermediaries

- **The establishment of minimum entry standards for intermediaries**
- **Setting capital requirements to reflect the risks associated with the activities undertaken by the intermediary**
- **Setting internal organization and operational conduct that aim to protect the interests of clients**
- **Adequate measure for the exit of intermediaries to reduce systemic risk and investor loss in the event of a wind-up**



8. Principles for the Secondary Market

- **The licensing and oversight of marketplaces**
- **Ongoing regulatory supervision of exchanges and trading systems**
- **The establishment of transparency in trading**
- **Ensuring the management of large exposures, default risk and market disruptions**
- **Addressing unfair trading practices, such as market manipulation and insider trading**
- **Appropriate level of oversight for clearing and settlement systems**



THE METHODOLOGY FOR ASSESSING IMPLEMENTATION OF THE IOSCO PRINCIPLES

- **The Methodology was endorsed by IOSCO during its 28th Annual Conference held in Seoul in October 2003**
- **The Methodology will assist regulators in;**
 - **Assessing their level of compliance with the IOSCO Principles**
 - **Identifying the issues that require priority action**
 - **Developing action plans to establish the necessary reforms**



OTHER PRINCIPLES AND STANDARDS PUBLISHED BY IOSCO

Various committees and task forces within IOSCO have worked in the preparation of international standards in specific areas that fall under the 8 headings in the 30 Principles.



To sum up;

- **IOSCO has focused on the issues of interest to the international financial markets and has been very prompt in producing reports and principles.**
- **The understanding that there is no one-size-fits-all approach to securities regulation is inherent in all standards and principles prepared by IOSCO.**
- **IOSCO identifies high-level principles that should be met by securities regulations in order to respond to the needs of the markets.**
- **There is always flexibility for individual regulators to determine the exact regulations for their respective markets.**



COOPERATION AND EXCHANGE OF INFORMATION - 1

- **Globalization of financial markets has increased the need for cooperation between securities regulators in combating violations and fraudulent activities in cross-border securities markets**
- **This issue was previously addressed via bilateral memoranda of understanding**
- **In May 2002 IOSCO endorsed the Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information, in Istanbul / Turkey**



COOPERATION AND EXCHANGE OF INFORMATION - 2

- **The Multilateral MoU**
 - **Provides an efficient mechanism for the cooperation and exchange of information among signatories**
 - **Has so far been signed by 24 IOSCO members**
 - **Enables the exchange of crucial information such as bank, brokerage, and client identification records**



THE ROLE OF THE EMERGING MARKETS COMMITTEE - 1

- **The EMC constitutes a substantial portion of the IOSCO membership with its 74 members**
- **The various committees within the EMC have prepared reports that;**
 - **Reflect the status of regulations in specific areas of securities regulation in emerging markets**
 - **Identify the possible problems and deficiencies in the regulations**
 - **Propose solutions as the context permits**



THE ROLE OF THE EMERGING MARKETS COMMITTEE - 2

- **The EMC will be providing training to its members in the form of regional seminars and training programs.**
- **Furthermore IOSCO is planning to provide technical assistance to its members on;**
 - **The process of becoming a signatory to the IOSCO Multilateral MoU**
 - **Making regulations that meet the IOSCO Objectives and Principles of Securities Regulation**



CONCLUSION

- **The standards and principles issued by IOSCO constitute excellent models for jurisdictions to base their regulations in order to;**
 - **Establish robust and reliable markets that sufficiently allocate funds to the domestic economy**
 - **Increase the competitiveness of markets in attracting international investors**
- **Securities regulation must be kept under constant review in order to keep up with the developing needs of the markets**
- **Emerging market securities regulators should make the best use of the tools presented by IOSCO and get the benefits of the various opportunities for training and technical assistance that will be offered**