Speech by Martin Wheatley, CEO of the Financial Conduct Authority, delivered at the IOSCO conference in London.

(This is the text of the speech as drafted, which may differ from the delivered version)

I'm delighted to be able to open this conference in London - it's the 40thanniversary for IOSCO.

I'm especially pleased that the UK Financial Conduct Authority is host for the event - the FCA is still only a little over two years from its creation but has already had a significant impact on the philosophy of regulation.

And from a personal perspective, I'm delighted to introduce a second IOSCO annual conference. Albeit under very different circumstances to the first.

I have had the slightly unusual privilege of hosting IOSCO on two separate occasions - Hong Kong in 2006 and now in London.

The financial world in 2006 was in a very different space to where we find ourselves today.

Indeed, it's sobering now to reflect on how much of the period between those conferences has been absorbed in the management of crisis cycles.

So, first we witnessed that astonishing shift in the centre of economic gravity from confidence to crisis. The existential threat, if you like, that many of us here experienced and lived through in 2008. Backstopping entire financial systems.

The recent cycles have challenged us. The Dot Com period of boom and bust in the early part of this century gave way to the Great Moderation up to 2006 - a period when we thought we had achieved stable economic growth, high rates of employment, lower inflation- and the demand was for light touch regulation.

2007 and 2008 brought us to a period of existential threat when we wondered whether the global financial system would survive and where we saw the disappearance of many financial institutions.

And frankly since 2008 to now, we have been in the process of rebuilding.

Rebuilding first the balance sheets of banks; boosting capital; reducing leverage, building liquidity buffers- in fact, doing everything necessary to prevent the dilemma of a Government knowing that they had to step in- because institutions were too big, too complicated or too connected to fail.

This process has not come without a cost- but I think the prudential regulators would tell you that this rebuilding phase is almost complete.

The second phase of rebuilding, or repair is the repair of the culture of our financial institutions.

And hopefully with it the repair of the standing of our financial institutions. The culture was just as broken as the balance sheet. Hence the succession of scandals that all of us in this room have witnessed.

The building blocks of this repair are much more complicated. There is no easy equivalent to raising more capital, reducing risk weighted assets.

It's a complex and time consuming process. I think this phase of repair is under way – every CEO and Chair I talk to wants to explain their culture change programmes– but there is also a recognition that this phase will take many years.

The third phase of rebuilding is one that has started but needs the completion of the other two.

This is for innovation and competition to return to our financial services.

Innovation to the benefit of consumers, not the innovation that placed layers of complexity into products such that you cannot see the risk/reward pay off.

Not the sort of innovation that obscures the true costs.

But, innovation that creates efficiency; that enables consumers to make good choices; innovation that makes markets work well.

That generates profits for the winners. That allows for new entrants to compete. That allows poor business models to exit the market.

This phase requires confidence from consumers, but it also requires bravery from regulators. And this is the phase we are now entering.

So, between those IOSCO conferences in Hong Kong and London, we have moved very rapidly from confidence to crisis, from life support to rehabilitation.

And hopefully now from remediation to confidence.

In the UK, certainly, there is more confidence and focus on growth, with the emphasis on areas like productivity and employment.

In Europe, the imperative is capital markets union, SME lending and infrastructure.

And around the world, we see very similar debates taking place in discussions around trade links, structural reform and so on.

Now, the great question of course, and one that this conference will focus on, is how this growth agenda affects regulatory priorities?

In the past, regulators have been assessed to be barriers to expansion and growth. Ronald Reagan's famous appraisal of the role of Government being: 'If it moves, tax it. If it keeps moving, regulate it. If it stops moving, subsidise it.'

Most, I think, would today argue there's a more positive acceptance of effective regulation. It's no longer seen as antithetical to growth, but as a necessary precondition for it. In fact, no message has emerged more strongly from the last eight years.

But to maintain that acceptance, it's an imperative for IOSCO to speak to global economic ambitions for the next ten years.

And, to achieve that, there is a cocktail of factors and conditions that have to be in place.

First, financial markets need to be more welcoming of useful innovation.

Second, there needs to be effective competition.

And third, there needs to be the stability of positive conduct. And each of these areas will be at the centre of this week's debates.

So, on the latter - positive conduct and its impact on trust and growth - the core challenge today is effectively completing that post-Libor post-FX remediation phase.

We have seen the detection and dispensation of justice. Multiple fines, in multiple jurisdictions, to multiple firms.

But long-run, sustainable improvements in investor and consumer confidence ultimately rest on the quality of stage two interventions of culture change. The prevention of repetition, if you like.

Hence the reason we're now seeing significant policy work taking place around the world. Both at the supra-national level, as well as the national.

Indeed, in the UK, as many will know, the Government launched its own investigation – the Fair and Effective Markets Review – into the Fixed Income, Currency and Commodity markets last June.

I know that the Minister will mention this, so suffice it to say that the FCA will take forward its part of the agenda at a national level. But the bigger challenge is at a global level.

All of which elevates the importance of IOSCO, and the work that it has achieved in this area.

But it also challenges us to push further. And that's one of the reasons why we saw the IOSCO Board yesterday commit to the formation of a working group to look at carrying forward the conduct agenda.

Completing cultural remediation – accountability

And that brings us to the second core element here of promoting positive conduct which engenders consumer trust and confidence: the responsibility of firms and individuals.

Regulators cannot become the conscience for the financial world. Nor would it promote any sustained confidence among investors were we to try to do so.

It's no surprise therefore that we've seen boards promoting cultural reform in their firms so energetically. Spending anything up to 70% of their time on regulatory issues.

As we've witnessed in FX, however, this is not proving straightforward for industry leaders. And there are important factors why.

Certainly, your risks rise in parallel with quantum of staff and the complexity of your structure. If you have 200,000 colleagues, the maths makes it very unlikely that there will be no misconduct. If not impossible.

Equally, there will always be a governance challenge here around measuring, assessing and setting risk appetites for so-called 'soft risks' like behaviour and integrity.

It's difficult, for example, to come up with a 'value at risk' equivalent that satisfactorily states an appetite for conduct risk.

You might be willing, as a firm, to have a risk appetite where you could lose up to £100m on a three standard deviation price movement. But what would be the conduct equivalent here?

No more than two attempts to manipulate global benchmarks? No more than five major counterparties front-run on their transactions? No more than 1000 retail products mis-sold in any one day?

Clearly, the output of a formula along these lines is impossible to work through.

There are therefore governance challenges for firms here. Not to be underestimated.

But for me, there is a wider issue around accountability. Frankly, until individuals have a meaningful sense of responsibility for their actions – particularly in a high reward environment – governance issues are unlikely to be reduced.

In the UK, this is certainly a priority. And we are introducing a new accountability regime next year, which introduces a number of changes.

The new Senior Managers Regime requires firms to construct so-called 'responsibility maps'.

Organograms setting out the allocation of responsibilities across individuals, governance arrangements and the like.

The arrival of so-called 'Statements of Responsibility' – establishing, in some detail, the individual areas each senior leader will be accountable for.

And a new certification regime covering more staff. Effectively filling a gap in the current regime where you might have junior advisory staff in banks approved. Senior commodities traders not.

Now, there is nothing particularly transgressive here about the importance of accountability in financial services. 19th century bankers used to have to put up surety as a condition of their employments. So it is hardly new.

But at the other end of the spectrum, of course, we have a growth agenda that's dominated by the unfamiliar. So, very significant steps forward in innovation and technology that are quickly reshaping markets.

We face a new wave of change, increasingly defined by innovators, hungry for market share, moving into areas like biometric fingerprints; comparison sites; mobile payments; currency exchange; crowdfunding and so on and so forth.

Very quickly then, technology is becoming an engine for change in financial services. Resembling the 'competition crash' in computing in the 1990s, where rapid and sustained innovation increased competition after decades of stability for incumbents like IBM.

The banking industry, as we know, is viewing these trends with a mixture of optimism and caution.

It certainly makes sense for IOSCO members to promote positive change that creates growth and potentially improves the customer experience. You certainly don't want an environment that's hostile to innovation.

In the retail market, we are seeing new complexities emerge around issues like disintermediation.

Automated guidance; learning algorithms; self-improving artificial intelligence and so on – all are potentially enormously useful, yes.

But in many ways, their arrival mirrors the ethical and philosophical debates we're seeing in other areas of progress such as driverless technology in cars, inverting previously accepted models of personal responsibility.

The clearest example here, maybe, is in the financial advice space, where we are now assessing the impact of websites that allow investors with smaller pots to set risk appetites, saving goals, timescales and so on – all without any kind of human interaction.

A split from the principal / agent model that's underpinned monetary transactions for most of human history.

On top of this, a host of other important questions for leaders around caveat emptor, as well as areas like KYC and AML and de-risking.

The conundrum for regulators – and one that will be raised this week – is how to achieve balance here?

What is the balance between the growth imperative on the one hand, and consumer protection on the other? What is the balance between containing risk and contributing to useful innovation?

Here in the UK, part of the answer, as it is in the US, is through specific regulatory provision for innovators. So, the FCA has launched an Innovation Hub that is now supporting many firms through the minefield that is our regulatory process.

And, in the EU, we've seen much the same debate taking place, particularly around the possibilities opened up around Capital Markets Union.

So, the question here is: how does cross-border collaboration affect the expansion of new technologies and models? How does it affect crowdfunding, peer-to-peer and other types of non-bank direct lending?

How do we introduce that competition into the financing space?

And, critically, how do you then ensure that this competition is effective competition?

More players on the pitch, as we know, does not necessarily translate into effective price discovery in the financial space. Nor high quality customer service.

Indeed, the pattern of the last few decades has tended to be that consumers simply haven't had the time, inclination or financial sophistication, to discipline the supply side.

So the supply side has benefitted from often very low volatility in its consumer base.

In the UK, certainly, we've have multiple competition reviews into areas like retail banking over the years.

Yet only very modest success in the face of core issues like inertia, complexity and any number of behavioural biases. You are still more likely to change your partner than your bank.

It is an imperative therefore that global regulators and industry support the demand side to better discipline the supply side.

In other words, the ambition should be to move away from a world where firms are able to exploit information asymmetries – whether by accident or design.

And transfer across to one where consumers are able to select financial products and services more successfully. Rewarding good ones with profits. Punishing poor ones with exits.

So, areas like behavioural economics, now a core area of discipline for a growing number of national regulators, are of clear importance to managing the transition across to vibrant, competitive financial markets.

They are also, of course, a key part of that cocktail of conditions – alongside improved culture and innovation – that will drive positive consumer outcomes and deliver sustainable growth.

Conclusion

For the last eight years, we have been assessed on our ability to see and mitigate risk. Over the next ten, we will be judged on our ability to facilitate competition; to embrace innovation without stifling it.

Regulation can, and should, be a positive part of that story.

I know Greg is going to offer his own reflections on that imperative of driving forward economic growth, as well as looking at the significant steps forward by IOSCO over the year.

It is a great privilege to welcome him to London and I would certainly like to thank him and his team, on behalf of the FCA, for his enormous application and intelligent support over the last year.

I would also, of course, like to welcome our new Economic Secretary to the Treasury, Harriett Baldwin, to IOSCO - she has a critical role in government as the City Minister.

We are very greatly privileged to welcome her for what is – I would imagine – one of her first speaking engagements since taking office.

Once again, my thanks to all delegates and colleagues.

Thank you.