



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores

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Opening Ceremony Address

Speech by

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Chairman,

IOSCO Emerging Markets Committee

and

Chairman,

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Chile

Prof Stanley Fischer, Governor, Bank of Israel

Prof Zohar Goshen, Chairman of Israel Securities Authority

Mr. Mario Draghi, Chairman of the Financial Stability Board

Mrs Jane Diplock, Chairman of IOSCO's Executive Committee

Mr. Greg Tanzer, Secretary General of IOSCO

Mrs Kathleen Casey, Chairman of the IOSCO's Technical Committee



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Mr Saul Bronfeld, Chairman of Tel Aviv Stock Exchange

I would like to start by thanking our hosts today for setting up what it has become an extremely productive conference. I thank them for their friendship and the professionalism of all the personnel of the Israel Securities Authority.

Emerging market economies as a group are suffering today a serious setback in their development process. Despite persistent reform efforts in the last two decades, they have been severely affected by a global economic crisis they are basically not responsible for.

Indeed, emerging market economies have been hit by second round effects of the crisis. In general, despite a wide variety of cases, emerging market economies were not directly exposed to what we call today the “subprime” crisis. According to a survey answered by countries representing 70% of emerging markets GDP, they have been hit by second and third round effects derived from the crisis.

Second round effects are related to macro financial considerations: a fall in terms of trade, decrease in capital inflows and trade finance and exchange rate instability. All this has indeed reduced growth and in most cases contributed to recession.

Fellow regulators in Emerging Markets have reported their concern about the economic implications of the social effects of the crisis, basically derived from the expected policies devoted to mitigating rising unemployment.

Emerging market regulators are committed to continue strengthening their regulation in order to prepare their markets to function more efficiently at home and successful integration with



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international financial markets. Successful integration with financial markets can be a stabilising factor for economies, but we are all aware that the preconditions needed for that are not easily achieved and require permanent revision and improvement.

Having this as “wall paper”, we regulators need to be self critical and examine beneath the surface to find the factors that, in the regulatory area, lie behind the roots of the crisis. We also need to be realistic and creative in seeking solutions to the problems we face.

Roots of the crisis

The regulatory framework that we have been building over the last 30 years since the deregulation process started, has relied on the so called “efficient market hypothesis”. According to this view, as long as enough information is available, market participants should engage in arbitrage and stabilizing speculation that would finally promote efficient and fair financial markets. At the same time deregulation took place at the various national levels and financial markets became increasingly integrated across countries.

This process of simultaneous national deregulation and international financial integration took place at the same time that macroeconomic policies in various countries were not totally suited to this globalization of finance. We can say that this is one of the main causes of the Asian crisis 11 years ago and the subsequent effects on several countries in particular in Latin America in the following years.

As a result of this, there was an impressive reform process in a large number of emerging markets macroeconomic policies. This, and the responsible treatment of the commodity price boom that lasted until early 2008, meant that Emerging Markets found themselves well positioned to face the current financial crisis. Those earlier reforms are effectively protecting emerging markets from the turmoil.



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The current crisis started in the best performing financial markets in the world, in particular, in those that most closely follow the best international standards. This means that the causes of the crisis are not evident. They are most probably a subtle and long chain of market failures and policy options that lastly proved to be inadequate.

It is critical that we take the right lessons from this crisis but I feel the task will be difficult and we face the risk that once markets stabilize the necessary reform impetus may recede.

We need to strike a difficult balance between a rapid response to markets in need of guidance and taking sufficient time to adopt the best policy decisions in the financial arena. IOSCO is assisting in striking such a balance.

Financial stability will not appear by miracle: financial stability is the outcome of sound and thoughtful regulation and supervision. Future financial stability must be constructed by us.

As well as the failures in the regulatory approach derived from the efficient market hypothesis, this crisis is probably indicating that there are other issues that, over time, regulation will have to recognize and face. The discussion on those other issues, that some analysts call “animal spirits”, the Middle Ages’ phrase used by Keynes, is just starting and will take time to unfold. A modern view of this is related to what is called “behavioural finance”. From this perspective concepts that are crucial to us such as "transparency" and "governance" both at the corporate level but including what I call "regulatory governance", will show new features that will need to be considered in any future new regulations.

IOSCO is working hard in this area and the Emerging Markets Committee is fully committed to supporting these efforts. As you have been informed by the Chairman of IOSCO’s Executive



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Committee, Jane Diplock, we are working on a new Strategic Direction for the period 2010-2015 that will prepare the organization to assist the financial market in better fulfilling its role as a promoter of stable economic growth. The Emerging Markets Committee can be an efficient way to convey the opinion of emerging markets regulators to IOSCO and other important fora such as the Financial Stability Board and the Monitoring Board of the International Accounting Standards Committee Foundation. This process will now be naturally strengthened with the presence of Brazil, China and India in the Technical Committee. We are glad that these countries were invited to join the Technical Committee.

I am even happier to say that Brazil, China and India will remain in the Emerging Markets Committee and Mexico will also support us.

Emerging markets are no longer marginal participants in financial markets. We need to strengthen the active, cooperative and constructive role of the Emerging Markets Committee with IOSCO and beyond. We will count on the efforts and cooperation of all Emerging Market jurisdictions.