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Introduction

- Firstly I want to note how especially pleased I am to have this opportunity to speak to you here in Madrid today! Not only is Madrid a truly wonderful city steeped in magnificent history, tradition and art, but in the modern world it also makes a significant contribution in the regulation of the global capital markets. Madrid hosts the Secretariat General of the International Organisation of Securities Commission known as IOSCO. I will come back to introduce that organisation shortly but for now I want to emphasise how extremely grateful the securities regulator community around the world IS for this generous gesture on the part of the Spanish Government to provide a home here in this glorious city for the Secretariat General.

- Today we often hear the financial markets described in somewhat robust terms: phrases such as "today's turbulent times", "the sub-prime crisis", a "credit crunch", "a run on liquidity", "extreme volatility" and so on characterise the descriptors of today's capital markets. Certainly I would agree that we live in exciting times. For the global capital markets there has been significant volatility, and as we saw with the stock market dives last week, what happens in one part of the world, reverberates in others.

- Very recently I was struck by a cartoon I saw in the Economist: The cartoon was a depiction of a person falling -

clearly Uncle Sam- [that personification of the US we so often see] and as he falls he sets off a string of dominos falling behind him. These dominos all represent the various countries of Asia –India China and so on. And the cartoonist asks -as I do here today- Are in fact the Asia Pacific countries, the economies of China, India, Vietnam, Thailand and so on, likely to be affected by the credit crunch and the sub-prime turbulence emanating from the US . This is an important question which is preoccupying many commentators and on which there are conflicting views.

- I will come back to expand on this and the issues facing the Asia –Pacific region later on but firstly I would like to give you an overview of the work we do at IOSCO in the realm of the global capital markets.

- I particularly welcome the kind invitation from Institute Empressa and Expansion Magazine to talk to you today, because much of what we do as regulators and watchdogs for investment products and markets is behind the scenes. You executives working at the coal face of stimulating commercial activity may not be totally familiar with our work. Nevertheless what we do has important repercussions on economic stability and the confidence in capital markets, globally. And for this reason I am pleased to have this opportunity to give you a brief update on the main themes challenging the international securities regulator community today, especially from the perspective of the Asia Pacific Region.

Global Capital Markets

- Let me start by setting the scene from a global perspective: Over the last decade capital markets have become increasingly global. More and more businesses are raising capital across national boundaries and investors are placing their money in other jurisdictions. We are also seeing growing consolidation and interdependence of markets in different national jurisdictions, such as the merger between New York Stock Exchange and Euronext to form NYSE Euronext Inc, and the recent merger between Borsa Italia and the London Stock Exchange.

- I should note here that this trend is not yet as pronounced in the Asia Pacific region where exchanges are not as actively consolidating at present. Some exchanges in that region are protected against foreign ownership, since the exchanges are regarded as strategic to the development of their capital markets. What has emerged instead are a number of cooperative agreements between national exchanges, as well as some consolidation within domestic markets. Most of the strategic thinking occurring in Asia involves creating alliances to share technology or to trade stocks of another bourse. The Singapore Exchange is a prime example of the utilization of cooperative agreements. It presently has alliances with both the Australian Stock Exchange and the American Stock Exchange and is in the process of creating more alliances. Some exchanges in the Region have however started to take stakes in possible long term partners in the region. In March last year the Singapore Exchange spent US$43 million for a 5% stake in the Bombay Exchange and in June the Tokyo Stock Exchange paid US$300million to acquire 4.99% in the Singapore Exchange.

- Capital markets enable businesses to raise funds and thereby play an increasingly important part of economic development and growth. To attract capital investment from overseas and domestically, countries in all regions including the Asia Pacific region, need regulatory frameworks that are internationally recognised and acceptable. Investors will not invest if they do not have confidence that the regulatory frameworks offer a fair, efficient and transparent playing field. If the cost of learning about the different regulatory frameworks is high, investors will be discouraged from investing across borders.

IOSCO

- This is where IOSCO is assuming such an important and influential role in the regulation of capital markets. IOSCO sets global standards and leads the thinking on ways to address the challenges for securities regulators in today's global world.

- IOSCO is the International Organisation of Securities Commissions, and for the last three and a half years, I have had the privilege to Chair the Executive Committee - its governing body. IOSCO's vision is for markets which operate across the world on sound principles and standards, and regulators who can cooperate and exchange information across borders. It aims to ensure that markets are fair, efficient and transparent; to protect investors; and to reduce systemic risk.

- IOSCO members regulate more than 90% of the world's securities markets – and it is the international standard setter for securities regulation. It is recognized as the global securities standard setter by the international financial community and in particular the Financial Stability Forum, the World Bank and the International Monetary Fund. It has developed 30 broad Principles for securities regulation and promotes the full implementation of these in the regulatory framework of every member jurisdiction.

- IOSCO has also developed a Memorandum of Understanding among member regulators which enables them to share information to counter cross border fraud. As signatories the securities regulators can gather information from their counterparts overseas on cases they are investigating. There are more than 59 jurisdictions from around the world which have either signed or committed to signing this memorandum, and IOSCO has set the bold objective of having all member jurisdictions signed up by 2010. I am pleased to say that the Asia Pacific region is well on the way in meeting this target, with only two member jurisdictions in the region still to make the regulatory reforms necessary to sign up.

- The Organisation carries out its functions through a number of committees comprising member jurisdictions. There are three main committees, namely the Executive Committee which is the governing body; the Technical Committee which reviews major regulatory issues related to international securities and futures transactions and co-ordinates practical responses to these concerns; and the Emerging Markets Committee which endeavors to promote the development and improvement of efficiency of emerging securities and futures markets. In addition there are four regional committees representing the major regional groupings of capital markets.

The Asia Pacific Region

- Jurisdictions in the Asia Pacific region certainly play a vital part in the work of IOSCO. Starting at the Executive Committee I note that both the Chairman (that's myself - from the New Zealand Securities Commission) and Vice Chairman Fulin Shang of the China Securities Regulatory Commission hail from securities regulators in that region. The important EMC is chaired by Mr Damordaran, Chairman of SEBI- the Indian Securities and Exchange regulator, and one of the fastest growing capital markets in the world. Indeed one third of the nineteen members of the Executive

Committee are from Asia Pacific jurisdictions. A number of staff from securities regulators within the Asia Pacific region play an important part on the standing committees where much of the technical work is undertaken. Finally the Asia Pacific Regional Committee itself makes a valuable contribution in progressing the IOSCO mission and I was pleased to see an initiative which sets up a voluntary scheme for mutual recognition of collective investment schemes endorsed at the Committees recent meeting in Seoul last November.

- Recent repercussions from the US sub-prime market problems have reverberated around the world, and this is just one example of an area where IOSCO helps identify issues and contribute towards proposing workable solutions as required. At the recent IOSCO Technical Committee meeting which I attended in Tokyo in November last year, IOSCO announced that it would set up a task force to review issues arising from the recent market turbulence.

- While it is premature to comment on any findings of this task force, I would like to make some more general observations about the rapidly developing emerging markets and the impact of the sub-prime market crisis in those parts of the world, in particular in the Asia Pacific markets. Never before has the flow of capital from east to west been so explicit and resounding. The shift in global financial power is profound: last year emerging economies grew four times as fast as their developed world counterparts; and the economies of the Asia Pacific region represent a large part of this growth. Of the twelve largest stock exchanges in the world by domestic equity market capitalisation five are Asia Pacific region exchanges, and again five Asia Pacific exchanges feature in the twelve largest exchanges by share trading in 2007 and 2006. Amidst the top 10 stock markets registering the greatest growth in market capitalization the top 4 were Asia Pacific region exchanges, namely the Shanghai, Shenzhen, Bombay Stock Exchanges and the National Stock Exchange (NSE) of India. The Shanghai Composite Index was the world’s best performing index with a year on year growth of 96.7%.

- Exports from emerging markets are now almost half of the world’s total, while they consume the bulk of the world’s energy and have accounted for four-fifths of the growth in oil demand in the part five years; they also account for three quarters of global foreign reserves.

- This growth however has been accompanied by a high degree of volatility, and all benchmarks fell sharply in the middle of the year when the sub-prime crisis hit the global markets. The Asian markets however recovered sharply and went on to make new highs by the end of the year. The question now on everyone's mind is whether a repeat performance is possible during 2008. Thinking again about the carton I described earlier of a falling Uncle Sam setting off a set of Asian economy dominos, what impact subprime crisis in the US have on the Asian economies? Do economies such as China and India have the internal resilience in their domestic economies –or across the region-such that they will be able to survive the repercussions of the credit squeeze. A situation which arose as we all know from the banking practices in the US mortgage market and the valuations around collateralised securities which included those mortgages.

- Will the impact of the sub-prime crisis take its toll on the Asian markets, particularly if the US economy were to go into recession? The current commentary is divided on this. With the market volatility last week, some commentators express optimism that the decoupling of the Asia economies from those of the US and Europe's will enable economic growth to remain at recent levels has weakened. On the other hand other commentators' views suggest coupling of these economies has been overstated and that the economies of the Asian giants had diverged some time ago.

- I note two recent reports where ongoing confidence in the region's economic outlook remains strong: The United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) in its Key Economic Developments and Prospects in the Asia Pacific Region 2008 Report launched a few weeks ago noted that the robust economic growth in the Asia –Pacific region will continue in 2008, despite uncertainties in the US and continued appreciation of regional currencies. Strong domestic growth in China and India, sound economic fundamentals and buoyant commodity prices it sees as underpinning the region's resilience. Similarly the Pacific Economic Co-operation Council, which groups more than 20 economies stretching across the Pacific from Australia and China to Chile and Canada, was "cautiously optimistic" about the region's outlook, projecting economic growth to remain at 4.9% next year, about the same as this year. My own view is also cautiously optimistic that the Asian Pacific economies will prove resilient to this latest turbulence.

- We at IOSCO while we are fascinated by economic predictions and they remain important for our work, are not in the business of predicting economic forecasts ourselves. As I have said our primary aim is to encourage the formation of regulatory frameworks which enable markets to operate across the world on sound principles and standards, and to put in place mechanisms so that regulators can cooperate and exchange information across borders. We want to see that markets are fair, efficient and transparent; that investors are protected and that systemic risk is reduced. This makes the systemic issues outlined above vital to our work.

- The question of valuations of complex syndicated products; transparency of these products and the possible negative impacts of the US sub-prime crisis are relevant matters to us all. Global co-operation by regulators is vital as the spill over of these issues is felt from one jurisdiction to another. Other developments which IOSCO is watching closely include issues around rating agencies, private equity and hedge funds all of which play increasingly important roles in markets globally.

Co-operation by Regulators

- Historically the regulation and monitoring of markets has been undertaken by national governments, and in many parts of the world this remains true today. Many jurisdictions have different commercial and legal treatments and traditions, different rules around commerce and trade, and this poses challenges for securities regulators in the enforcement of rules where there is cross-border trade. Capital markets in today's global world are no longer bound by sovereign or national boundaries, while the regulating of these markets does remain the ambit of national –or regional -jurisdictions.

- In addressing this challenge we regulators all agree that cooperation between regulators is at the core of any solution. What we at IOSCO have built is a fundamental set of principles, in other words an infrastructure for assessing another jurisdictions regulatory framework for equivalence, and to facilitate co-operation between regulators.

  - With the adoption of the IOSCO Principles for securities regulation globally effective regulation around cross-border trade is facilitated in a seamless way providing a basis for mutual recognition of regulatory regimes.

  - Let me explain a little more what we mean by mutual recognition. Rather than envisaging standardized model frameworks across jurisdictions, mutual recognition allows domestic laws and regulations to reflect national imperatives whilst providing the capacity for cross-border cooperation and enforcement. To work effectively, mutual recognition requires coordinated responses and consistent approaches to regulating cross border transactions. As a first step for achieving mutual recognition, one must agree on a common basis of principles to assess the effectiveness of foreign regulations and the work of the foreign regulator. The IOSCO principles provide such a basis.

- What will be core to the effectiveness of arrangements based on mutual recognition is the level of trust in the capacity and willingness of the other regulators to enforce and cooperate. It requires a mutually acceptable legal framework, and a similar appetite to take action. Domestic regulators who wish to participate in mutual recognition arrangements will be compelled to look at their own regulatory arrangements and ensure that they have regulatory frameworks and enforcement capabilities in place that others would wish to mutually recognize.

- In my view as a prerequisite, adherence to the IOSCO Principles and being a signatory to the IOSCO MOU should be the underpinning to mutual recognition considerations. If a jurisdiction in the future wants to participate in market developments of the future its domestic regulation and capacity will need to be world class.

- Apart from some initiatives in European Union jurisdictions, and some promising steps by the US, a worldwide application of mutual recognition is still very far away. I have earlier noted the very positive steps taken in the Asia Pacific region wherein the IOSCO Regional Committee has endorsed a facility for mutual recognition of Collective Investment Schemes.

- And very much closer to my own part of the world I am pleased to note the work New Zealand and Australia have undertaken to introduce mutual recognition of securities offerings. This regime, to come into force very soon, will allow businesses to raise capital in Australia using New Zealand offer documents – and vice versa. Few other countries have lowered their borders in quite this way. Investors will also benefit from having a wider choice of investment opportunities.

- I would add too, that as Chairman of the New Zealand Securities Commission it has been gratifying to see a tightening of New Zealand's securities regulatory framework over the last seven years which brings us now close to international best practice and a confident player in the global capital markets.

Conclusion

- In concluding I would just like to re-iterate that in the realm of global capital markets and cross border trade we do indeed live in fascinating and turbulent times. In such challenging times the need for strong regulatory co-operation underpinned by high standards globally is now more vital than ever!

Thank –you for your attention