

Good morning everyone. My name is Werner Bijkerk and I have been entrusted the difficult task of replacing David Wright, Secretary General of IOSCO, due to an emergency at the Board of the organization. My intervention is inspired by his ideas but also based on my professional experience as a Director of IOSCO Research currently, and previously as a strategist of the Authority of the Financial Markets in the Netherlands and as a researcher at Nyenrode University.

For those who are not familiar with IOSCO, it is the institution that issues global standards and rules for the securities markets regulators. Around 120 regulators are members and they regulate more than 95% of the capital markets worldwide. Apart from the regulators, numerous self-regulators such as BME and global entities like IMF are members as well.

The principal objectives of IOSCO are:

1. Protecting investors
2. Promotion of fair, efficient and transparent markets
3. Reduction of systemic risk

How do the world view us, regulators?

The society requires and has the right to have appropriate regulation. What are our challenges?

1. **We cannot afford more big scandals** such as:
 - “The preferences stock” and “the stamps” in Spain.
 - The toxic products in USA scattered around the world
 - The Libor-Euribor-Tibor scandal
 - The list of scandals is long, and each country has its own

Regulators have the obligation to improve investor protection drastically. We must ensure that financial institutions have customer interest as the key driver of their products and services.

2. **We have the obligation to help our markets increasing their role in promoting the real economy.** Today this is even more urgent now the banks have restricted their lending and our economies need stimulus more than ever.

Regulators have to facilitate the process in such a way that companies can access efficiently the capital they need through securities markets. Creativity on our part will be necessary, for example: Creating business desks, i.e. centralized points of information for entrepreneurs and firms so that they can move forward quickly with their new products and services, etc. Obviously without losing sight of the protection of the investors, maintaining fair markets, etc.

3. **We cannot afford another financial crisis.** An estimated 15% of global GDP has been lost. Therefore, society demands and has the right to have a regulation that prevents this type of crisis.

The regulators have to identify, control and mitigate potential systemic risks – even if they are not captured in the law.

The law is an important instrument of regulation. We enforce the law but, as history teaches us, the big problems and scandals, and systemic risks are usually formed **outside** the legal framework.

Our challenge is to identify the products, services and the harmful behavior **inside and outside** the legal framework. And mitigate these big problems before they grow to an irremediable level. IOSCO has implemented new global standards for regulators globally to do this: these are the principles 6 and 7, and subsequently launched a global committee and a Research Department, which I manage.

Our first product is the *Securities Markets Risk Outlook 2013-2014*, which analyzes the major risks in global markets, whom try to summarize below:

1. the search for yield and the return of the leverage in the financial system;
2. the use of collateral in a stressed funding environment which increases interconnection and implicit leverage in the shadows of official balance sheets of financial institutions;
3. the growing interconnections a result of the great changes in the derivatives markets and the role of CCPs, and
4. volatility of capital flows and the fragility of emerging markets in times of potential sudden changes in interest rates in mature markets.

Managing potential systemic risks is not easy. We have to find the big problems, analyze them and have the courage to tackle them. As

regulators, we sometimes have to knock on the door of the Ministry and request for necessary changes in the law. And sometimes we will be obliged to force pro-actively changes in behavior of financial institutions. If the regulator has to make public the misbehavior from time to time to achieve mitigation of the problem, so be it. It is for the good of investors, society and economy. And, I tell you from my experience, at the end this arduous task will be appreciated.

Now an observation from my position in IOSCO about a global tendency that might interest you:

The current system of regulation of the financial sector in Spain is the sectorial model where each segment of the financial sector has a specific regulator: banking, securities markets, insurance and pensions. This model has grown organically in all countries across the globe. Recently, many countries have reorganized their regulatory system in a model of "Twin Peaks". In the "twin peaks" there is a prudential regulator responsible for **the solvency and liquidity of all entities**, and another regulator responsible for the behavior of these entities. Australia, the Netherlands, France, Belgium, South Africa and, a few months ago, the United Kingdom, are examples.

One of the great advantages of this "Twin Peaks" system is that the conduct of people, which is the root of most of the scandals and crises, receives much more attention than before when the banking sector regulator was concerned above all of the bank's solvency and much less in some not so transparent products that are not beneficial for investors. Lately we have experienced another benefit of the "Twin Peaks" system: it is much more apt to analyze the interconnections. This is an advantage to consider.

Finally I wish to share an insight on the regulation of global markets.

Securities markets are more transnational and global than ever. The crisis has not stopped this tendency. The world benefits from global markets because they distribute capital more efficiently. Investors have more options to diversify their portfolios at better prices.

But the problems are also increasingly global. Price manipulation is done from any part of world and it is harder to fight. The Libor-Euribor scandal were caused by bankers in London while several countries around the

world perceived the harmful effects. The toxic products produced in the U.S. were at the root of the global financial and economic crisis. National rules can only mitigate part of these problems. Cooperation among regulators helps. But it does not solve all the big problems.

As you know IOSCO is the organization that produces global standards, it analyzes the potential systemic risk and it coordinates the supervision of cross jurisdictional market manipulation. Currently 100 regulators have signed the multilateral mutual agreement to combat transnational financial crimes. The uncovering and tackling of the Euribor-Libor scandal would not have been possible without this IOSCO agreement and of the intense cooperation between our members.

Facilitate the battle against financial crimes is arduous and difficult to manage. Society is now demanding more efficiency and efficacy. Today we have a relatively simple world with a couple of big markets. But in the near future we will have other large markets in China, India, Brazil, Indonesia and many more countries. There is no guarantee of global integration with this increasing number of large markets. Global standards and voluntary cooperation through IOSCO will not be enough. We will need much stronger global institutions. With strong arms. Legal powers. Something like the World Trade Organization, as the European Union. We are facing a long way towards to reinforce our global regulatory institutions with the purpose of ensuring our financial markets stimulate the global economy; and protecting our investors against harmful products and services; and systemic risks.