



**Speech Given by Mr Richard Breeden, Chairman of the
Securities and Exchange Commission, USA,
at the opening of the XVII IOSCO Annual Conference
at the Queen Elizabeth Conference Centre II
on Tuesday, 27 October, 1992**

**U. S. Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549**

Ladies and Gentlemen:

In exactly one week, my country will elect or reelect a President. Yesterday, Canadian voters rejected far-reaching proposed Constitutional changes. In Europe, Denmark has said "no", France has said "yes", slightly, and others still have to decide on Maastricht. The tragedy of Yugoslavia's disintegration, and the ongoing process of change in the former Soviet Union, remind us of the uncertainty that affects the world's political systems.

Uncertainty is also widespread in economic affairs. The sudden unraveling of the ERM in Europe, the enormous decline in Japanese stock and land prices, the unseating of the Chairman of General Motors and many other situations demonstrate that changes that might once have seemed remote can become this morning's news. In many nations, strong economic growth has given way to much tougher times, and new forces that we don't fully understand seem to be at work.

Financial markets have been specializing in surprises for some time, and they can be good or bad surprises. Five years ago the Dow Jones Industrial Average plunged more than 22% in a single day. Black Monday witnessed a surge of trading volume at unprecedented levels, stressing our trading and clearance systems to the limit. Afterwards, many people predicted that investors would abandon the market. However, there are today more than 20 million more

investors in stocks in the U.S. than there were in 1980.

Even more dramatic has been the upsurge of financing volumes since Black Monday. During 1987, there were public offerings in the U.S. totalling \$272 billion. Despite the crash in 1987 and the "crashette" in 1989, last year the volume of public offerings rose to \$600 billion. If the pace of the first three quarters holds for the rest of the year, we will have more than \$900 billion in public offerings in 1992.

For more than three years, I have had the privilege of leading the 2,600 men and women of the SEC. They have the task of examining almost 30,000 entities, and overseeing trading markets with roughly half of the world's total equity trading volume and trillions of dollars in assets. They also have the job of detecting and then prosecuting in the courts frauds, market manipulations and other abuses of customers. Our regulatory programs seek to protect customers, to promote market stability and integrity and to facilitate the capital formation process.

In carrying out those various responsibilities, the SEC has accumulated quite a bit of experience. We have lived through the Black Mondays, the Drexel Burnhams, the Equity Fundings. Every year we oversee thousands of individual offerings that present almost every imaginable accounting or disclosure issue. Of course that doesn't mean that we have all the answers. Indeed, every day

brings new types of frauds, new financial instruments, and new types of risk to be considered.

In addition, our market, like each of yours, has become internationalized. In only three years, for example, almost 150 foreign companies have made their first public offering of securities in the U.S., registering almost \$62 billion in securities. Overall, more than 500 foreign reporting companies from 35 countries are listed for trading in the U.S. public markets. Each of these companies has different accounting and disclosure principles to reconcile so that investors are not presented with a financial Tower of Babel in selecting among them.

Of course we give all the foreign companies listing their stocks in America the same rights we give American companies -- not better treatment than the home team or worse. Indeed, the Toronto Blue Jays have just proved that you don't have to be an American team to win the World Series. However, if you want to play the game you have to expect that the umpire will give you four balls and three strikes, just like the home team.

In meeting the challenges we face, the SEC tries to use competition, transparency, market disciplines and a few other reliable tools. Like you, we can also use all the advice and counsel that we can get. We value input from our SROs, our market

participants, and other law enforcement agencies. We also seek to benefit from the views and experiences of colleagues from around the world. We try to take what we learn internationally into account when we ultimately decide on the standards necessary to achieve the mandates that we have under American law, just as I am sure each of you does in your own country.

During the past two years I have served as the first Chairman of IOSCO's Technical Committee. We have discussed the global dimensions of accounting, auditing and disclosure rules, the nature of derivative risks, electronic trading systems, enforcement cooperation, money laundering, business ethics, clearance and settlement and capital levels.

In these and other areas, our efforts have sought to catalogue practices, compare techniques and develop consensus approaches to solving mutual problems like crossborder fraud. We have never pretended that we had the right to issue binding directives. Rather, all our work has been by consensus, as it has to be if we hope to have any significant effect over time. Hopefully the work that we have done has benefitted the members of IOSCO in developing your own approaches to the problems of regulating securities markets.

For the future, our work will hopefully continue to be useful in functioning as a "clearinghouse" of ideas and techniques of

members around the world. As the world we live in becomes perhaps a bit more uncertain, it becomes all the more important to share early warnings of problems and solutions that work or don't work with each other. However, if the Technical Committee were to be used to try to force the attitudes of some markets onto others, the result would be unfortunate and unproductive.

It is important to recall that there is not any benefit to be gained from the uniform imposition of a rule or practice that is not a good idea. Common standards that are not adequate or that will not work when tested in a crisis are worse than each market having the standard that it believes best suits its own market needs and characteristics. Thus, it isn't enough to aspire to "international" standards. Rather, we need to be both smart and global.

We also have to be prepared to take whatever time it takes to work out the problems with new standards before we inflict them on markets, not afterward. Capital standards in particular can have significant unintended results, like the immense reduction in commercial lending by banks in the U.S. that has been at least in part caused by the Basle capital standards for banks. Such unintended results could distort capital flows artificially or impair competition. Insufficient capital standards used by everyone could also weaken market stability rather than enhancing it. Some risks to the safety of the entire market are simply too great to

accept.

In addition to improving the stability of markets, one of our more important challenges is also to help provide the financing for the economic growth needed by all our peoples. During my involvement with IOSCO, the most encouraging and the most rewarding developments have come among the "emerging markets." Here IOSCO members can help others learn how to create and operate markets with increasing size and complexity.

Indeed, in my view, sharing our skills and our mistakes with smaller markets seeking to use the power and efficiency of free capital markets as a tool for economic growth should be one of IOSCO's highest priorities. In addition, "emerging" markets like those of Mexico or Taiwan that grow to be very large should in my view join their colleagues from the older markets in the Technical Committee. The Technical Committee needs to remain open to meeting the needs of all our members, and we should welcome newer and vigorous growth markets to our ranks.

Compared with the 1980's, the 1990's may prove to be a decade that witnesses a much tighter supply of equity capital worldwide. If that is true, investors worldwide will be more internationalist, but they will also be more selective. In such a "buyers market," countries that do not provide adequate protection for investors

just won't see the investments. Therefore, large and small markets will all need to focus on achieving "quality" for the investor in offering and trading practices and in the overall safety and integrity of the market.

As a clearinghouse and as a forum for discussion and consensus building, the Technical Committee has an important role to play in helping to insure quality is built into the markets of tomorrow right from the start. I hope that it will continue to serve that function in the future as it has done in the past.