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**News
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REMARKS OF

**RICHARD C. BREEDEN, CHAIRMAN
U.S. SECURITIES AND EXCHANGE COMMISSION**

**INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS
WASHINGTON, D.C.**

SEPTEMBER 24, 1991

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Ladies and Gentlemen:

On behalf of the United States Securities and Exchange Commission, I would like to welcome you to this sixteenth annual meeting of the International Organization of Securities Commissions. Gathered here in Washington are over 500 representatives from more than 50 countries. This is the broadest representation ever to attend an IOSCO meeting, and it demonstrates the increasingly vital role played by securities markets to economic growth around the world.

As we gather for our discussions, we will be seeking ways to strengthen world economic growth. Indeed, promoting the growth of the capital markets is an essential ingredient in achieving broad-based economic growth in each individual country and on a global basis. At the same time, we are also looking for ways to make sure that the growth in our financial markets is not impaired by market manipulation, fraud, or other activities that could harm investors.

The job of designing a regulatory system for the capital markets of the world is a difficult one. There isn't a simple, easy model for the best set of laws. There isn't a simple answer to every question that we have to face day to day. Indeed, even

when you get just about the right balance of regulation and market forces, that balance will only last for a short while. Markets grow and change, and as markets change, the balance between how much regulation is enough for the public and how much regulation is too much, changes too. So the balance between regulation and market forces is a balance that requires judgment and care, and it has to be made over and over.

Making and adjusting the balance requires above all else, communication, consultation, learning from each other and working together. That, hopefully, is the spirit that brings all of us together at this annual meeting of the International Organization of Securities Commissions.

This annual meeting was last held in the United States in 1982. At that time, IOSCO was known as the "Inter-American Conference of Securities Commissions and Similar Organizations." The 1982 conference was attended by 40 delegates representing just eleven member states. They were Brazil, Canada, Chile, Columbia, Ecuador, Jamaica, Mexico, Panama, Peru, Venezuela and the United States. Another 74 observers came from eighteen other nations in Europe, Africa and Asia. This year, our annual meeting reflects an enormous growth in participation. Counting the new members admitted only yesterday, we have 40 securities regulatory commissions, 25 ministries of finance, and 36 self-regulatory organizations from 50 countries attending our meetings this week. That's quite a change in less than a decade.

Of course, IOSCO isn't the only thing that has changed since 1982. Aggregate world equity market capitalization in 1982 was about \$2.7 trillion, more than half of which was attributable to the U.S. market. The total market capitalization of the emerging securities markets was only \$70 billion. Indeed, the world had just completed an experiment, in the sixties and seventies, during which economic development for many developing countries was based heavily on bank lending. That experiment was a failure, and resulted in considerable damage to both the borrowers and the lenders.

Less than a decade later, the size and complexity of our markets have exploded. The total world equity market capitalization has grown to above \$10 trillion. This growth reflects many factors, including the widespread privatization of state enterprises, the growth in world GDP, and the steady securitization of financial assets, reflecting the higher returns that come from raising capital directly rather than through intermediation.

Here in the United States, we have seen various signs of growth in our financial markets during this period. Total equity market capitalization has gone from about \$1.5 trillion to about \$3.6 trillion in less than a decade. The trading volume for our exchanges and on the NASDAQ system has risen by an even greater proportion. New issues of securities have come at a rapid pace, and indeed 1991 is setting records in that regard. During the second quarter of 1991, corporations issued about \$154 billion in

new debt and equity in the U.S. markets, more than was ever issued in any entire year prior to 1986.

New instruments have been part of the growth of the marketplace. Huge volumes of mortgage-backed debt securities and other securitized instruments have been issued. When we met in 1982, the "stock index futures contract" was just being introduced. In the interim, trading in financial futures has increased extensively in the United States and around the world. Many other derivative instruments have been issued involving currencies, interest rate swaps and other products. Computerized trading strategies link the derivative markets and the other international markets and have increased the technological complexity of all trading. These developments have given us new tools with which to manage risk, new tools with which to lower the cost of capital and to raise capital, and new tools for meeting the needs of investors. They have also created new challenges and complexities for our regulatory systems.

Although world equity market capitalization has increased roughly four-fold since 1982, growth in the emerging markets was even more rapid. Their market capitalization has risen about seven-fold, from \$70 billion in 1982 to more than \$500 billion today. The capitalization of some markets has increased even more rapidly. In Mexico, for example, market capitalization has risen from around \$2.2 billion in 1984 to just about \$60 billion in 1991, an almost 30-fold increase.

Access to capital has been the fuel for economic growth for many companies in emerging markets. Indeed, in 1990 over 1200 public companies in 20 emerging market countries raised over \$22 billion through share offerings in their domestic markets. If that amount had come from bank borrowings rather than from equity, those companies would have substantial annual interest expenses. Companies from emerging markets are also increasingly raising capital in North America, Europe and Asia as well as their own markets.

Reflecting the economic success of equity offerings in many countries, at least ten new securities exchanges were formed around the world last year. Many people are aware that new exchanges were recently formed, or old ones reopened, in Hungary, Poland and the Soviet Union. However, there are also new stock exchanges, of varying degrees of size and complexity, in Panama City, Tegulcigalpa and even Ulan Bator, Mongolia.

Of course, those in the securities markets know that having a securities market that can serve as a source of capital for economic growth takes more than having a building called a stock exchange. It takes more than having a computer or a trading floor. It is perhaps a bit like growing a garden.

Like me, many of you may enjoy growing plants in a garden. A garden takes a few basic ingredients. It takes good soil, plenty of sunlight, occasional fertilizer and appropriate amounts of water. Planting a few seeds is of course helpful. Even once your garden is planted and the plants begin to grow, there is still work

to be done. Like people, plants are not all constructive. Sooner or later, a criminal element, known as weeds, will try to take over your garden. If constant attention isn't given to weeding the garden, weeds may eventually strangle the other plants. Even if the weeds are kept under control, other problems can come along. Sometimes a dose of insecticide will be necessary to stop the widespread proliferation of smaller pests.

Investors, too, need some of the assurances of a healthy garden. Investors need assurance that they will not become the victims of swindles, and that they can rely on the financial integrity of those who hold their securities. They need to have confidence that market prices will rise and fall due to market forces rather than due to back-room manipulations.

Governments must also be willing to contribute to the process. In many countries, government has to make the basic decision to create a market. Government has to create the basic legal principles, including laws governing contracts, insolvency, taxation and competition that will govern the activities in the marketplace. Governments also have to be willing to abide by the disciplines of the marketplace.

Markets are the most efficient allocator of goods and services needed to meet society's competing needs. When allowed to operate effectively, markets provide a powerful engine for economic growth, and for funding health care, housing, transportation, energy and a clean environment. There is a catch, however. Governments have to recognize that markets demand sound economics, even from their

own governments. Therefore, though they provide for economic growth, markets also provide discipline over governments' fundamental economic policies.

As the securities markets develop, they need investors and trading facilities. Private property rights have to exist, and a legal system has to be capable of protecting those rights. Economic growth has to be possible without excessive taxation or ruinous inflation. Private companies have to be interested in issuing securities, and individuals and institutions have to have savings to invest. Investors, even if they have savings, have to be provided with clear and reliable information, so they can choose from among the securities available.

The job of tending our economic garden never seems to be done. Indeed, probably the most dangerous time is when you think you have it just about right and are tempted to take a rest. Market oversight requires constant effort, and it requires talented and trained professionals, willing to patrol for and protect against fraud in the marketplace.

The work of the IOSCO is very important in building a strong global framework for regulation of our thoroughly international market. Our work on capital rules, our work on disclosure standards, our work on enforcement and other topics is vital to the long-term protection of our markets and their investors. More than that, IOSCO's work is critical not just in protecting what we have, but in seeing how to improve and to strengthen our markets, for the benefit of all of our countries. As suggested by the Chinese

proverb, we live in very interesting times -- perhaps somewhat too interesting at times. BCCI, the difficulties in Japan and Germany, and the difficulties here in the U.S. government securities markets should serve to remind us about the difficulty of our the job and importance of meeting the challenges.

On Inauguration Day, when President Bush addressed the American people and the American Congress, he spoke about both the opportunities and the problems facing the United States. He said quite simply: "The American public didn't send us here to bicker. They sent us here to cooperate and to solve our problems." In a very similar way, IOSCO is a forum, an opportunity, for us to work together to reconcile systems that have many different characteristics, but that have many common objectives.

We must do our best to fulfill the obligations that have been imposed on us by our peoples to protect investors and the integrity of the markets. We must at the same time work to promote competition and efficiency. As part of that process, we have difficult supervisory issues to address among the developed markets. The work of the Technical Committee has demonstrated great common will to bridge our differences and to reach solutions that will improve the safety of all of our markets.

IOSCO is much more, though, than developed markets getting together to talk about capital rules and disclosure. Every one of the developed markets has an opportunity, and indeed a responsibility, to make available our knowledge and skills to the emerging markets. We have among us literally centuries of

experience in making the difficult trade-offs that are required for market growth and market stability. We can and we should help the emerging markets by sharing that experience, sharing our systems, sharing our knowledge and judgment. This will benefit the emerging markets, and in the long run the entire market system.

We also can and should try to encourage savings and capital formation. With developments in Eastern Europe and the Soviet Union alone adding about 400 million people to those seeking capital through market systems, we will need all of the capital that the world can develop. As capital is generated through savings and investment, it is our job to help see that it is protected, and that we don't allow fraud, manipulation, or any of the other "weeds" to destroy the chances for a better economic future for every country.

The SEC is determined to do our part. We intend to continue to protect the more than 50 million people who invest in the U.S. equity markets. We intend to promote efficient markets in the United States and to support positive and constructive changes to improve competition among markets. At the same time, we will continue to be vigilant in working to promote stable markets. We are committed to working actively with the international community to build a strong global system where free markets can flourish. We intend to continue extending our hand in friendship to nations who want to build capital markets as a means of improving their economic future.

In the last two years, the SEC has created two organizations towards this end. We created an Emerging Markets Advisory Committee that brings together the leadership of the major market institutions in the United States. We have also created an International Institute for Securities Market Development. The first Institute, this past spring, brought together more than 75 officials from 32 emerging market countries. They spent two weeks in intensive study, looking at not only how to regulate the securities markets, but also at the broader economic laws and policies that contribute to strong and growing of markets. We intend to hold an Institute each year. We hope that at our second Institute next spring we will not only have faculty from the U.S. Securities and Exchange Commission and other U.S. agencies, but also faculty experts from other developed securities markets.

We face enormous challenges in the world markets in the remaining years of this decade. We have to continue to build the market system. We have to make sure that we allow free competition to produce market efficiency and market growth. We have to continue to foster and reward individual enterprise and initiative. These things have gotten us where we are. Government regulation is an important part of that overall economic system. It can and must supplement the market system, but it cannot replace market forces and should never try to do so.

However, the world isn't all challenges. There are also many opportunities that we will face together this week. We have an opportunity to make it easier for companies to issue shares not

just in their home country, but in markets around the world. By harmonizing our accounting and auditing standards, we have an opportunity to make it easier for investors to compare the opportunities available to them around the globe. We have an opportunity to make sure that investors have available to them the widest possible variety of instruments through which they can participate in the markets. The markets are increasingly so complex that many will be deterred from individual investment, but would welcome the opportunity to participate through pooled and professionally managed investment vehicles.

We have an opportunity to harmonize our trade reporting systems to provide the transparency that is absolutely essential for the long-term health of markets, for the fairness of these markets, and for the ability of investors to judge the quality of executions. We have an opportunity to create and improve systems to report prices and volumes because the day of 24-hour a day trading is unmistakably here, and here to stay. And we have an opportunity, working together in the law enforcement field, to make sure that the swindlers and crooks understand that we will not allow international boundaries to serve as a shield for fraud on investors.

We have the ability and the will to make progress on these and many other issues. We have, I believe, the obligation to do so. Most important, we have an enormous opportunity not only to maintain the economic benefits that free markets provide in many of our countries, but also to work together to see economic growth

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spread around the world, to benefit peoples in each of our countries.

Thank you. We look forward to an exciting week.