REMARKS BEFORE THE COMISION NACIONAL de VALORES de MEXICO

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MEXICO CITY, MEXICO

MAY 23, 1990

The views expressed herein are those of Commissioner Schapiro and do not represent those of the Commission, other Commissioners or the staff.

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I. INTRODUCTION

It is a great pleasure to be in Mexico City, and to have the opportunity to participate in today's seminar hosted by the Comision Nacional de Valores de Mexico.

As neighbors, Mexico and the United States share a common destiny. As friends, we share a common vision of just, open societies with strong economies and opportunity for all citizens on both sides of our borders. Strong securities markets, efficiently channeling capital to its most productive uses. are an essential ingredient for achieving prosperity. As primary regulators of our nations' equity markets, the Comision Nacional de Valores de Mexico and the United States Securities and Exchange Commission have vital roles to play in achieving our countries' shared vision for just and economically vibrant societies.

The CNV and the SEC are working closely on many matters of mutual interest. Under President Espinosa's energetic leadership, the CNV has taken numerous actions to increase the size, the quality and the efficiency of Mexico's securities markets. The CNV is committed, as is the SEC, to appropriate governmental regulation of the expansion and growth of securities markets. Both agencies agree that capital flows most readily to markets where there is an assurance of fairness, financial integrity and ethical business standards, and we are each committed to providing fair and honest markets.

We look forward to working in partnership with the CNV to define a framework for consultations regarding matters of mutual interest and to establish procedures for comprehensive mutual assistance in investigating a full range of securities law violations. The SEC also welcomes increased cooperation between our countries with respect to the development of efficient markets and the expansion of opportunities for investment across our borders.

In April, the SEC was privileged to host a visit from President Espinosa, who met with Richard Breeden, Chairman of the SEC, to discuss these and other issues, including recent developments and proposed changes in our respective markets.

We are heartened by the successes of the Mexican government's anti-inflation and structural reform programs. These programs have moderated inflation, improved public sector finances, made Mexican manufactured goods more competitive, and reduced domestic inefficiencies. Equally important is the improvement of private sector confidence seen in increased investment and capital repatriation. In the process of setting a new course, Mexico has given prominence to the important role of an efficient securities market in a reformed financial and banking system.

Because of our common border, Mexico and the United States share a special interest and a special commitment to cooperation between us. Mexico and the United States also share a special bond with the other countries of our hemisphere.

No less important, though, is the SEC's interest in the development of strong securities markets in Asia, Eastern Europe, Africa and around the globe. We are pleased to be able to participate in the meetings of the IOSCO Market Development Committee beginning tomorrow. Under Mexico's Chairmanship we believe the Development Committee is playing an important role in identifying and addressing issues of particular importance to its members.

II. THE CHALLENGES OF INTERNATIONALIZATION

"Internationalization" of the securities markets is one of the most publicized and discussed financial trends in the United States. I want to take the opportunity of being with you today to discuss some of my personal views about this subject.

Whether as a regulator, or as a market participant, one cannot advocate a position for or against internationalization. The internationalization of securities and other markets is driven by technological advances. If there were no trans-oceanic telephone connections, no fax machines, no computers or jet airplanes, global markets trading would be impossible. With those technologies, internationalization is inevitable. Creation of global markets for certain products has to a large extent, already taken place. The pace of cross-border investments and trading is sure to continue, as long as there is a stable and hospitable political climate.

In key respects, the issues raised by globalization are the same for all markets, regardless of size, complexity or volume. Clearance and settlement systems, supervisory oversight and enforcement regulations, capital standards, issuer disclosure requirements and choice of accounting principles fundamental are aspects of every market. Although standards governing these basic elements arise in different contexts -- and there are different levels of resources available to address them -- both established markets and developing markets face the same critical questions: What trading, reporting, clearance and settlement systems will work best on a national and a global basis? What information must issuers disclose? How much risk is tolerable for issuers, brokers, clearing houses or investors? What are the common elements that must be present in order to reach agreements to facilitate cross-border transactions between countries?

Both established and developing markets face broader questions as well. How do securities activities tie-in to the activities of derivative markets or banks? What is the impact of tax, monetary and trade policies in limiting, expanding or distorting choices, in the markets, and in the decisions of regulators? How much or how little governmental regulation is appropriate or politically feasible?

While many of the financial questions facing established and developed markets are the same, as we foster internationalization, and establish standards for global markets, I believe we must be vigilant to the fact that on another level, the internationalization of securities markets poses different risks, different challenges, and

different opportunities for developed markets than for emerging or developing securities markets. That is why, in part, the existence of a separate Development Committee is so vitally important to IOSCO's work, and why member countries of the Committee must consider certain issues from their own distinct perspectives.

For participants in established markets, internationalization provides first, an opportunity for portfolio or risk diversification. Holders of capital can invest abroad and issuers can raise capital, and then conduct operations abroad. Second, internationalization provides market discipline by making the flow of capital more efficient. If corporate issuers in a given market are more productive, available capital should increase. If those issuers are inefficient, unproductive or fail to provide a stable investment climate, capital will flow to other economies. These opportunities and risks fit within the existing system of expectations for the United States and most other developed markets. Hundreds or thousands of businesses in such markets are prepared to compete on these terms.

Internationalization also provides similar benefits to developing markets. However, for less established markets, the promise of internationalization efforts is more focused on the prospect of increased access to capital and much less on portfolio diversification. From an issuer's perspective, unless a business already has international operations or exposure, access to foreign capital markets, though important, is less necessary, and less likely to be successful. In less established markets the number of

firms able to raise international capital or establish international operations is smaller, so the risks are more concentrated.

Further, in a smaller market, allowing portfolio diversification by local holders of capital may be perceived as a luxury, best done without. For developing economies, internationalization holds out a prospect that international access to, and participation in, the local market will attract new capital. In turn, this new capital, if successfully employed, would lead to economic growth, which in turn will increase market liquidity, a key factor in attracting additional capital. But successful internationalization will also demand, and produce, significant collateral effects on the general business climate.

For example, to compete in attracting capital, markets must exist within an environment of political and economic stability as well as free access to relevant information, at least on matters effecting the economy. Changes in the business climate may require or cause shifts in social or cultural expectations touching a broad range of matters. The social, cultural and even political aspects of internationalization arise occasionally in discussions about the impact of internationalization on the United States, but these issues are clearly of singular importance to emerging markets grappling with the opportunities and risks of a global market place.

The United States markets have served the U.S. economy, U.S. citizens and U.S. democracy well. Over the past ten years the Securities and Exchange Commission has

received an ever increasing number of requests from other countries for training and advice with respect to the establishment or regulation of securities markets. The past twelve months have brought a wave of requests from the countries of Eastern Europe for advice with respect to the even more basic subject of how to *establish* a securities market.

For many years the Commission has invited regulators from other countries to participate in a week long training session held each fall in Washington, D.C. for new Commission employees. In December, the SEC established an Office of International Affairs. In March, the Commission announced the formation of an advisory committee on emerging securities markets. The Committee will advise the Commission on steps that should be taken by the Commission and the U.S. financial services industry to assist efforts to create organized securities markets in foreign countries, including those in Eastern Europe. The Committee will include a distinguished cross-section of businessmen, lawyers and securities professionals. In addition, the Commission is establishing a training institute to meet the many requests for training and other technical assistance.

I strongly support these steps to provide training and assistance. We believe that our capital markets are a great treasure, and a powerful engine for progress and freedom. We are committed to assisting where we can, but we do not suggest for a moment that our way is the only way - or even the best way; only that it has worked well

for us. Our assistance to foreign regulators is offered in that spirit. Those of us involved in the United States financial markets, as regulators and participants, also have much to learn from and about other countries. I am personally looking forward to an opportunity later during the seminar and at the meetings of the Market Development Committee to hear your views on internationalization. We must work together to assure that each of our separate paths do not foreclose market access.

During my tenure as a Commissioner, I have found that foreign visitors who have come to the SEC for discussions or training have been open to new ideas, but deliberate about which of our ideas are adopted for their local securities markets. This is a constructive approach and one that I hope will continue.

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Visitors to the SEC often ask why the US markets are structured as they are, and work as they do. In general, the formal structure of the United States' markets reflects the operation of economic and political principles designed to promote societal wealth and productivity. These include reliance on competition to promote public good, the right to own private property, a right to enter into private contracts concerning the acquisition and disposition of private property without excessive government taxes or regulation and the right to freely obtain or exchange information.

These principles are the essentials. They could be formally adopted by any country. However, the actual operation of the United States' markets is as much a

function of our common law legal system, our outstanding communications system, our political system and our culture, as it is of the formal structure of our markets or our regulations. Our experiences also reflect the fact that the United States' securities markets have evolved over more than 200 years -- providing many opportunities for experimentation and diversity, and encouraging a spirit of innovation, which remains a hallmark of our markets today.

Even if they chose to adopt the formal systems or structures of the successful established markets, other nations must shape their regulatory scheme and market practices to meet their own political, cultural and legal systems. This is one of the special challenges facing developing markets as they seek to expand from a local to an international presence.

Also key to the success of our markets is their variety. The United States does not have one monolithic capital market, but several very different markets. The market most people think of first is the traditional equity market in which stock is offered to the public and traded on exchanges. There is a large public market for bonds and various other forms of debt, as well, including collateralized mortgage and trade receivable obligations. There is also a large and growing institutional private placement market, in which offerings of debt and some equity are made without public announcement to small groups of buyers, usually pension funds, insurance companies and other large institutions. The SEC, together with other in the fifty states, has also fostered a vibrant private

placement market for smaller or newer companies. Companies or partnerships, raising less than $5 million, and with limited numbers of shareholders after completion of an offering, are exempt from virtually all regulatory filing requirements.

In the United States small companies provide a disproportionately high per centage of economic growth and new jobs. During the decade from 1976 to 1986, two thirds of all new jobs in the United States were created by small businesses. I believe that regulators in emerging markets must focus on the need to foster local markets and local opportunities for entrepreneurs to obtain capital, even on a small scale. It is often through small entrepreneurial ventures that the genius and the drive of creative individuals is discovered and freed to build a productive economy.

Moreover, development of appropriate markets for smaller ventures accommodates two other critical aspects of market development. First, in order to have the general business climate conducive to investment and capital formation, there must be a widespread belief in the value of private corporate or partnership ownership. This acceptance of private property probably grows at least as much, if not more, if many citizens participate directly in ownership or control of small enterprises, instead of, or in addition to, participating in share ownership of large, distant corporations. Second, despite improvements in communications, investors in smaller, local enterprises may be in a superior position to obtain information about a local company's management and

prospects. Exploiting this natural advantage allows local investors to make more informed decisions about what businesses merit their investment funds.

Internationalization should not mean an end to local markets. Rather it means that there will be one more market segment: true world class issuers, in addition to regional, national and sub-national enterprises. Larger companies and the international market will not lack for attention or growth if some efforts are placed on the development of small business financing and local markets. Governments and regulators must rise to the challenge of sustaining local markets while managing the development of international market links.

III. THE 1988 POLICY STATEMENT

At the November 1988 IOSCO Annual Meeting in Melbourne, the SEC issued a policy statement expressing the Commission's views concerning the regulation of the world's securities markets. This statement is still our blueprint for addressing issues of safety and soundness in the international arena. The policy statement sets forth three goals or principles that we believe are necessary for the efficient functioning of an international securities market system.

First, an international system should have efficient structures for dissemination of quotation, price, and volume information for internationally-traded securities and

derivative products. These structures will be imperative in a 24-hour trading, global market system, and may play a vital role in lessening panic trading in periods of heightened volatility. A structurally efficient global market system will also involve the development of international clearance, settlement, and payment systems, and mechanisms for sharing financial information concerning securities affiliates. We must also address the development of international capital adequacy standards.

Second, the policy statement stresses the need for a sound disclosure system "based on mutually agreeable accounting principles, auditing standards, auditor independence standards, registration and prospectus provisions, and listing standards."[1] The policy statement finds that the ultimate goal should be the development of an integrated international disclosure system.

Third, the policy statement charges regulators with responsibility to ensure a fair and honest global market system. Toward this end, laws and regulations that prohibit abusive and manipulative practices, such as insider trading and front-running, should be promoted on a national basis.

Any one of these goals would be impossible to achieve in the absence of a spirit of comity, and a desire to coordinate, among the world's securities regulators and

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1 Regulation of International Securities Markets, U.S. Securities and Exchange Commission, November 198 at 8.

individual markets. That spirit has been evident in the past year as progress has been made in each of these goal areas. In some cases progress has been made through multilateral efforts, through organizations such as IOSCO and the Group of Thirty for example, and in other areas change has come about because of bilateral negotiation and agreement. Both approaches should continue to be pursued. It is my own feeling, however, that, at least in the short term, progress in some key areas will be dependent upon forging bilateral agreements based on an acceptance of each jurisdiction's own laws and regulatory system, as opposed to crafting multilateral, all-encompassing solutions. Although the world's markets are inextricably linked to each other in many respects, there are significant cultural, economic, political and regulatory differences that may make adoption of one uniform system and set of laws impracticable and perhaps unwise, at least in the near term.

For example, we are all witnessing the extraordinary development of fledgling market economies in Eastern Europe. The cultural, economic and evolving political systems as well as the lack of regulatory structures will require that we deal very differently with those "marketplaces." While the Eastern European countries have very far to go, we would be short-sighted if in our international negotiations and planning we did not anticipate their success and accommodate their unique requirements.

This afternoon I want to share with you approaches to promote internationalization we in the United States are currently taking in two areas of bilateral

or unilateral action -- enforcement of the securities laws and the facilitation of cross-border financings.

IV. ENFORCEMENT

The internationalization of the world's capital markets has brought about an increased incidence of international securities fraud. One of the principal challenges for the SEC in the past decade has been how to pursue persons who violated U.S. securities laws from abroad, or through the facilities of foreign banks or foreign broker-dealers. Often, evidence against such persons is located outside the United States. In turn, the SEC is committed to helping foreign regulators combat fraud in their own markets. For example, in a still on-going investigation of a major international stock manipulation scheme the SEC hosted a conference in Washington at which investigators from approximately one dozen countries shared information and coordinated strategy.

Historically, the Commission addressed the problem of evidence gathering in a unilateral manner, principally by seeking the production of evidence from abroad in civil actions brought in U.S. courts. This approach, however, often provoked negative reaction, and beginning in the early 1980s, the Commission embarked on a strategy of negotiating bilateral memoranda of understanding with foreign regulators. These agreements, referred to as memorandum of understanding, or "MOUs", establish

procedures to facilitate the exchange of information between securities regulators of different nations.

An MOU works by allowing the Commission to make a direct request to a foreign regulatory authority for its cooperation and assistance in locating and obtaining evidence outside the territory of the United States. The first MOU that the Commission entered into -- with Switzerland in 1982 -- required the signatories to use their "best efforts" to obtain the information requested, and was limited in scope to alleged insider trading violations. Since then, the SEC has entered into MOU agreements with seven countries. The most recent generation of MOUs, exemplified by those with Brazilian and Canadian authorities, have significantly improved upon the original model by providing, first, that the signatories will in appropriate cases seek subpoena authority to obtain the information requested, and second that information may be sought even if the investigating authorities are examining activities which may not be illegal in the jurisdiction from which information is sought.

In order for the Commission to be able to implement agreements of this type, we had to apply to the U.S. Congress for expanded enforcement authority. Most of these powers were granted to us in 1988. This legislation enables the Commission to use its subpoena power to conduct investigations on behalf of foreign regulators, even though the foreign regulator is investigating activities that might not constitute a violation of the U.S. securities laws. The Commission's use of its subpoena power on behalf of a foreign

regulator is discretionary, and in making its decision the Commission must consider whether the requesting authority has agreed to provide the SEC with reciprocal assistance.

The U.S. Congress is currently considering additional legislation that may make it easier for foreign regulators to enter into MOUs with the SEC by improving our ability to ensure the confidentiality of information we receive from foreign regulators, and that would enable the SEC to restrict the activities in the United Sates of securities professionals found by foreign authorities to have violated their jurisdiction's laws.

The MOU approach has worked well, both for the SEC and our foreign counterparts. The SEC has been able to pursue certain cases in a much more efficient manner, and with more positive results, than would have been possible absent the existence of MOUs. Even apart from their application in particular cases, MOUs are important because they increase investor confidence in our markets, and make it clear to would-be securities violators that there are few safe places to hide.

The SEC is hopeful that other countries -- some of whom are already signatories to an MOU -- will follow our lead in adopting legislation that will allow their regulatory authorities to use subpoena authority to assist a Commission investigation, and to permit their authorities to assist us regardless of whether the alleged activity violates the foreign country's law.

V. RULE 144A and MULTI-JURISDICTIONAL DISCLOSURE

In addition to pursuing the implementation of MOUs designed to ensure fair and honest markets, the SEC has undertaken two recent initiatives to provide greater liquidity and greater international access to our own markets.

There has been a substantial growth in U.S. investors' purchases of foreign securities, of offerings by U.S. issuers outside the U.S., and of purchases of U.S. securities by foreigners. In 1988, U.S. investors accounted for more than $151 billion of foreign corporate stock transactions. This was almost a nine-fold increase from the level of such transactions in 1980. Foreign investor purchases of U.S. equity and debt rose from $198 billion to $3.6 trillion over the same period. There has been a significant increase in the number of offerings made simultaneously in two or more countries, and also a significant increase in the number of multinational offerings that include a public offering to U.S. investors.

A. Rule 144A

Earlier I referred to the institutional, private placement market as one of the major components of the overall U.S. securities market. As you know, the U.S. system of securities regulation is primarily based on a philosophy of full disclosure. Companies issuing securities must file a detailed prospectus disclosing all material information about the company, its management and financial condition. This information must usually be

updated by quarterly and annual reports. However, private sales of securities -- a category carefully defined to protect the public and prevent abuse -- can be made without the cost and time necessary for registration of a detailed prospectus with the SEC.

Participation in the private placement market -- particularly the institutional market -- is growing. Last year approximately 35% of all corporate financings were private placements. While private placements provide a speedy, lower cost alternative to bring an issue to market, SEC rules prohibited, for a period up to three years, the re-sale of private placement securities, except in other private transactions. Accordingly, the private placement market was relatively illiquid.

Because of these regulatory constraints, many U.S. issuers turned to the Euro-markets for financings. Last month, however, the SEC adopted a new rule, called Rule 144A, which identifies a category of transactions involving large institutions -- essentially those with over $100 million invested in securities -- that do not need the full-blown protections necessary for the general public. These institutional investors will be able to buy and resell privately placed securities offerings amongst themselves. There are still restrictions on the sale of private placement securities to the general markets.

We have great expectations that Rule 144A will lower issuers' capital costs and provide a vibrant, specialized institutional market, without in any way detracting from the

strength or efficiency of the general market. We expect foreign issuers, as well as U.S. companies, to turn to this more liquid market.

B. Multi-jurisdictional Registration

While Rule 144A which should assist foreign issuers in utilizing the U.S. private placement market, we are also taking steps to ease foreign issuer entry into the general, public market. As a general matter, foreign issuers must meet U.S. disclosure requirements to sell securities in the U.S. public market. Obviously, there are significant expenses, and the possibility of conflicting requirements if an issuer must comply with both home country and U.S. disclosure rules.

Agreement on a uniform standard for offering is a very distant goal. Accordingly, the SEC is pursuing a bilateral approach, exemplified in a proposal made jointly last summer with the Ontario Securities Commission and the Securities Commission of Quebec. The proposal on multi-jurisdictional offerings would facilitate cross-border offerings of securities by specified Canadian and U.S. issuers, generally those with substantial existing market value and public float.

The SEC and Canadian proposal is only a first step towards facilitating transnational capital formation between the two countries. The approach is based on a willingness of the parties to accept each other's disclosure documents, but it predicated

on a finding that the regulatory requirements of the two countries are uniform, or comparable, in many principal respects.

The system proposed by the SEC and the Canadian Commissions will permit the disclosure document for certain public offerings to be prepared in conformity with the requirements of the issuer's home jurisdiction. The disclosure document customarily would be reviewed only in the issuer's home country. Issuers, however, would be subject to the criminal and civil fraud statutes in each jurisdiction where the securities were offered. Each jurisdiction would also be able to halt the offering in the public interest or for the protection of investors.

Although the Canadian and U.S. approaches to the registration process are similar in many respects, there are some significant differences in the areas of accounting and auditing that preclude reliance entirely on home country regulation. For example, Because of differences between Canadian and U.S. Generally Accepted Accounting Principles, financial statements prepared in Canada for offerings of equity securities would have to be reconciled to U.S. accounting principles.

Although the proposed regulation has not yet been adopted by the three Commissions. I am confident it will be adopted in the future. I also anticipate and hope that the proposals will become a flexible model that can be extended to cover additional jurisdictions.

VI. CONCLUSION

The development of the MOU approach, and the multi-jurisdictional proposal I just spoke of, are examples of the positive outcome that have resulted from international cooperation to date. What will the future bring? Undoubtedly, a further breakdown in national barriers. There may be some regions of the world where political decisions artificially limit international capital flows or trading. However, as I remarked earlier, the process of internationalization is driven by technology, and technology will continue to shrink the time and distance between most markets, whatever political decisions are taken in some markets.

Ten years ago, in 1980, there was no such thing as a personal computer. Today, desk-top computers are as powerful as a room-sized main-frame machine of ten years ago and as common as a typewriter used to be. I could not predict how technology will have advanced in another ten years. By then computers may be capable of instantly translating any document from one language to any other, or software may exist to convert one country's accounting presentation into the format of another.

What I can predict expect is that the burdens of a growing world population will demand increased economic efficiency to produce homes, jobs and a high quality life. To obtain that efficiency we will need a competitive, efficient, international financial system to channel capital from private party investors to privately controlled investments,

where productivity can be maximized. There is much work ahead of us, but I am convinced that the regulatory and other differences that currently impede to some degree the efficient functioning of our capital and derivative markets can be overcome. The process of internationalization requires us to continue our efforts to insure that the markets will be honest, stable, liquid and efficient.

I look forward to working with all of you to meet that challenge.

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