

International Affairs

The SEC operates in a global marketplace. The Office of International Affairs works to protect U.S. investors and the integrity of U.S. markets by encouraging international regulatory and enforcement cooperation, negotiating information sharing arrangements for regulatory and enforcement matters, encouraging the adoption of high quality regulatory standards worldwide, and conducting international technical assistance programs.

What We Did

- Worked with foreign authorities to address cross-border fraud.
 - Encouraged high quality disclosure and transparency internationally.
 - Promoted the strengthening and implementation of high quality international disclosure standards.
 - Offered technical assistance to regulators of emerging securities markets.
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Enforcement Cooperation

SEC Actions

The SEC continues to need assistance from foreign authorities to protect U.S. investors from cross-border fraud. To accomplish this,

the SEC has developed formal and informal relationships with foreign authorities for enforcement cooperation. To date, the SEC has entered into over 30 formal information-sharing arrangements with foreign counterparts. These arrangements have enabled the Commission to bring significant enforcement actions based on information gathered from abroad.

**Fiscal 2001
Enforcement Cooperation Results**

Requests to Foreign Authorities for Enforcement Assistance	364
Requests for Enforcement Assistance from Foreign Authorities	483

The SEC filed a record number of enforcement actions with international elements during the past fiscal year. Several of the actions, which illustrate the effectiveness and importance of the SEC's international enforcement program, are described below.

- *SEC v. PinnFund*.²⁰ In June 2001, the Commission obtained final judgments against Michael J. Fanghella and James L. Hillman, and entities controlled by them, for misappropriating at least \$276 million raised from about 166 investors, altering financial statements, and forging auditors' reports. Several months earlier, together with the U.S. Department of Justice and the U.S. Attorney in San Diego and with the assistance of Barbados authorities, the SEC succeeded in freezing the

assets of Fanghella and the relief defendants in Barbados.

- *In the Matters of Oeschle International Advisors, ABN AMRO Incorporated, Angela Iannone, and Andrew S. Parlin.*²¹ The Commission settled administrative actions against two individuals and their former employers, Oeschle, a U.S. investment adviser specializing in international stocks, and ABN-Amro, a U.S. broker-dealer. The individuals attempted to artificially pump up the value of Oeschle's portfolio by purchasing a large volume of foreign securities during the final minutes of trading on the last day of each quarter. The scheme was initiated in the United States and carried out in various overseas markets. The Commission obtained trading information from the French, German, Italian and U.K. securities regulators, which enabled the SEC to reconstruct trading patterns in various jurisdictions.
- *SEC v. Midpoint Trading Corp. and One or More Unknown Traders of Options on Common Stock of Ralston Purina Co.*²² The Commission obtained a preliminary injunction against Midpoint and Steve O'Hana. The Commission's complaint alleged insider trading in Ralston Purina securities prior to the announcement that Nestlé S.A. would acquire Ralston Purina. With the help of Guernsey authorities, the SEC was able to obtain crucial information from trading records sufficient to identify the beneficial owners of accounts that traded in Ralston Purina.
- *SEC v. Garry W. Stroud.*²³ The Commission obtained emergency relief, including a TRO and asset freeze, against Stroud. The complaint alleged that Stroud had conducted fraudulent Internet investment schemes, backed by certificates of deposit from Stroud's Euro

Credit bank, foreign gold-mining projects, and “prime-bank” trading programs. With information obtained through Swiss authorities, the Commission was able to allege in its complaint that the Euro Credit bank did not exist.

The Commission also worked on a multilateral basis to strengthen information sharing and cooperation with international regulators, thereby enhancing its ability to investigate and prosecute cross-border fraud. These multilateral initiatives included the following:

- *International Organization of Securities Commissions’ Response to the September 11 Events.* The effects of the September 11, 2001 events on securities markets underscored the importance of international cooperation among financial regulators. The SEC worked with the International Organization of Securities Commissions (IOSCO) to create a special task force to explore actions that securities regulators should take in light of the events of September 11 and their aftermath. IOSCO will focus on three specific areas: expanded cooperation among regulators and information sharing, identification of holders of bank and brokerage accounts and beneficiaries of financial transactions, and contingency planning.
- *Financial Action Task Force Work on Non-Cooperative Jurisdictions.* The SEC has been actively involved in efforts, on both a country-by-country basis and through international organizations, to encourage “non-cooperative” countries to join the international enforcement community by enhancing their ability to cooperate. As a result of these efforts, a number of foreign countries, including, for example, the Cayman Islands, have adopted new laws that enhance their ability to cooperate with SEC requests for assistance.

In June 2000, the international anti-money laundering organization, the Financial Action Task Force (FATF), with significant contribution from the SEC, publicly identified a number of countries with serious deficiencies in their anti-money laundering regulations as “non-cooperative.” Since that time, many of these “non-cooperative” countries implemented legislative changes to address the deficiencies identified by FATF, and have been more willing to assist the SEC in gathering information. In June 2001, FATF removed some countries from its list of “non-cooperative” countries, but will continue to monitor implementation of the reforms they adopted. FATF also continues to monitor the progress of countries remaining on the list.

- *Misuse of Corporate Vehicles.* Misuse of corporate vehicles (*e.g.*, for money laundering, financial fraud and market manipulation) is more likely to occur and go undetected in countries where there is no requirement either to disclose, or to provide to authorities upon request, information regarding the corporation’s ownership. The Commission worked with the U.S. Treasury Department, the Organization for Economic Cooperation and Development (OECD) and FATF to address these issues. In May 2001, the OECD issued a report recommending that:
 - ❑ countries have a mechanism for identifying beneficial owners of companies,
 - ❑ this mechanism be effectively supervised, and
 - ❑ governments be able to obtain and share this information with foreign authorities.

FATF also is examining the misuse of corporate vehicles in relation to its work in combating money laundering.

Transparency and Disclosure

International Accounting Standards

Issuers wishing to access capital markets in more than one country may have to comply with various disclosure requirements, including different accounting standards used to prepare financial statements. The Commission continued to support efforts towards convergence on high quality standards that provide investors consistent, comparable, relevant and reliable information.

For many years, the Commission has been active, both directly and through IOSCO and other international organizations, in encouraging the development and use of a high quality set of global accounting standards that could be used in cross-border capital formation. The Commission already allows foreign issuers to use International Accounting Standards Committee (IASC) standards, subject to reconciliation to U.S. Generally Accepted Accounting Principles (GAAP). In February 2000, the Commission issued a concept release soliciting public comment on accounting, auditing and regulatory issues that affect the quality of financial reporting in a global environment. The SEC currently is evaluating alternatives for action, as well as considering the issues of consistent application, auditing and enforcement.

International Disclosure Standards

Foreign companies increasingly are seeking to raise capital in U.S. financial markets. In 1999, the Commission amended its non-financial statement disclosure requirements for offerings by foreign

issuers to conform to the international disclosure standards adopted by IOSCO in 1998. The Commission's action was based on its assessment that conforming to the IOSCO standards would facilitate cross-border capital raising without compromising the quantity or quality of information investors receive.

In March 2001, IOSCO published a report describing how the international disclosure standards could be used in a shelf registration system. The report illustrates how the standards can be used in a "fast track" offering structure to enable issuers to tap capital markets more quickly. The report also underscores the importance of ensuring that current material information about an issuer is available in the markets.

Strengthening International Standards

International Organization of Securities Commission's Core Principles

In 1998, IOSCO adopted the "Objectives and Principles of Securities Regulation" (the Core Principles), which represent consensus among securities regulators worldwide on sound practices for regulating securities markets. To promote implementation of the Core Principles, the SEC and other IOSCO members are conducting self-assessments regarding their compliance with the Core Principles. IOSCO also is working with international financial institutions (*e.g.*, the International Monetary Fund (IMF) and the World Bank), which are using the Core Principles in their reform and restructuring work. During the year, Commission staff also participated in the work of international financial institutions on assessing the implementation of the Core Principles in a number of emerging market countries.

International Organization of Securities Commission-Committee on Payment and Settlement Systems Task Force on Clearance and Settlement

During the past year, IOSCO and the G-10 Committee on Payment and Settlement Systems (CPSS) jointly undertook work to promote the implementation of measures to strengthen securities settlement systems. The joint task force, in which the SEC participated, drafted a paper that sets forth recommendations for the design, operation, and oversight of securities settlement systems, including addressing issues raised by cross-border trading.

Joint Forum

The Joint Forum is an international organization formed under the auspices of IOSCO, the Basel Committee on Banking Supervision (BCBS) and the International Association of Insurance Supervisors (IAIS). The Joint Forum develops guidance to promote consistency in regulation of the different sectors of the financial services industry. Through its work on the Joint Forum, the SEC is addressing issues that are of common interest to securities, banking and insurance regulators.

This past year, the SEC participated in the Joint Forum's work on analyzing the IOSCO core principles. The Joint Forum issued a report identifying common elements of the core principles and explaining differences where they arise. The report is relevant to the work of the World Bank and the IMF, which have been assessing jurisdictions' compliance with the IOSCO, BCBS, and IAIS core principles as part of a program to identify financial system strengths and vulnerabilities and to reduce the potential for financial system crisis.

The Commission's staff also participated in the Joint Forum's work on approaches to risk assessment, internal controls, capital requirements, and group-wide supervision. The resulting report focuses on the differences among the securities, banking and

insurance sectors in their core business activities; similarities and differences in risk management tools; approaches to capital regulation; and cross-sectoral risk transfers and investments.

Investor Protection in the New Economy

The goals of investor protection and high quality corporate disclosure remained priorities for both securities regulators and market professionals. Following up on its earlier work on Investor Protection in the New Economy, an IOSCO Task Force chaired by Commissioner Hunt reported in March 2001 on the diversity of regulatory approaches in the public offering process, specifically with regard to securities allocation and lock-up practices. The report attributes the diversity of approach to differences in underwriting practices among jurisdictions, regulatory philosophies (*i.e.*, full disclosure versus merit regulation), and reliance upon exchanges or other self-regulatory organizations to prescribe, monitor and enforce allocation and lock-up practices. The report provides useful guidance to jurisdictions that may be considering securities allocation and lock-up practices.

Financial Stability Forum

The Commission continues to work together with the U.S. Department of the Treasury and the Federal Reserve Board on Financial Stability Forum (FSF) projects to address systemic threats to financial stability. In the past year, work focused on issues relating to hedge funds and offshore financial centers. The FSF also is encouraging global implementation of international standards to strengthen financial systems.

Corporate Governance

Commission staff participated in the work of the OECD on corporate governance, which was prompted by concerns that weaknesses in corporate governance at some Asian companies contributed significantly to the region's economic crisis in 1998. The OECD

developed guidelines that emphasize the need for management to focus on the interests of a company's owners--the shareholders--and call for the provision of timely and accurate disclosure of all material matters.

During the past year, Commission staff worked with the OECD and U.S. Treasury Department on regional initiatives to implement the OECD guidelines. In addition, through the Council of Securities Regulators of the Americas, Commission staff and other regulators from North, Central and South America and the Caribbean examined corporate governance practices within their respective countries. Finally, the Commission's staff is participating in the Joint Forum's study of approaches to corporate governance of regulated entities and the use of audits in the supervisory process.

Basel Capital Accord

In January 2001, the BCBS released for public comment a proposal for reforming the Basel Capital Accord. Because the proposal affects banks that also do business as broker-dealers, IOSCO, with the Commission staff's participation, undertook a review of the proposed Accord's effect on broker-dealers. IOSCO's comments to the BCBS focused on:

- providing insights regarding proposed capital requirements based on the experience of securities regulators,
- assessing whether the principles underlying the revised Accord appear sound and workable with respect to securities activities, and
- determining whether the Accord would create problems for securities regulators.

Technical Assistance

The Commission's technical assistance program helps emerging securities markets develop regulatory structures that promote investor confidence and capital formation. The program is multifaceted and includes training programs, review of foreign securities laws, and responses to specific inquiries from foreign regulators.

Fiscal 2001 Technical Assistance Results	
Requests for Technical Assistance from Foreign Authorities	266
U.S. Training Provided	206 Officials from 85 Countries
Overseas Training Provided	Over 210 Officials

The cornerstone of the Commission's technical assistance program is the International Institute for Securities Market Development, a two-week, management level training program covering the development and oversight of securities markets. In addition, the Commission conducts a week-long International Institute for Securities Enforcement and Market Oversight, covering techniques for investigating securities law violations and oversight of market participants.

Commission staff participated in a range of overseas training initiatives including: a regional enforcement and market oversight training program in Poland; regional capital markets programs in Peru and Bahrain; and corporate governance and regional enforcement programs in Russia.