



**REMARKS OF
ACTING CHAIRMAN MARY L. SCHAPIRO*
UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**BEFORE THE
COUNCIL OF SECURITIES REGULATORS FOR THE AMERICAS**

BUENOS AIRES, ARGENTINA

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

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

Good morning. It is, as always, an honor for me to address so many friends and colleagues.

I am privileged to participate in this ceremony with Martin Redrado, President of the Comision National de Valores of Argentina, and Luis Miguel Moreno, President of the Comision National de Valores of Mexico. I would like to extend my gratitude to Martin, and the staff of the CNV of Argentina, for all the effort they have taken to host this year's meeting of the Council of Securities Regulators of the Americas ("COSRA"). I would also like to thank Luis Miguel Moreno for the leadership he has displayed in the past year as the Vice-Chairman of this Council, and Guillermo Prieto, Vice-President of the CNV of Mexico, for all of his assistance.

As you all know, we are here to build upon a great undertaking. Almost one year ago today, representatives of the capital markets of sixteen countries from North, South, Central America and the Caribbean, came together to discuss ways in which our individual markets could become more closely linked and developed. Our meeting was motivated by the commonality of our interest in

promoting the development of sound and fair securities markets throughout the Americas.

We met at a time when many of the countries of Latin America were beginning to realize their potential more fully, as a result of the many economic, political and social transformations taking place throughout the region. Many state-owned industries had been successfully privatized; market capitalizations had increased dramatically; there had been significant growth in new issues; and capital was more freely flowing across national borders. In short, a new world order had emerged, in which the financial markets of the Americas were playing a leading role.

When we met last June, I said that one reason our countries needed to cooperate with one another was because our capital markets were already linked. At that point in time, Americans were net purchasers of \$2.6 billion worth of Latin American securities. This figure now stands at \$4.4 billion. In 1992 the total cross-border portfolio investment in equities and bonds between the United States and Latin America totalled almost \$80 billion. And as of March of this year, the assets of stock funds that invest primarily in non-U.S. equity totalled more than \$50 billion.

In recognition of these developments, and with the knowledge that future development in each of our countries is linked inextricably to development in all countries in the region, we formed a new organization to represent and promote the interests of its members in harmonizing the regulation of the securities markets of the Americas. This organization, the Council of Securities Regulators of the Americas, was formed so that we could exchange information about our respective markets; develop ideas to improve market efficiency; coordinate standards of market conduct; review specific areas of concern, such as accounting, disclosure, and surveillance systems; and generally promote the growth of liquid and efficient securities markets throughout the Americas. The Charter of the Council reflects these goals and others as well.

Although we accomplished a great deal at our meeting last year, in many respects I believe that much harder work lies ahead of us. The goals that we articulated -- and the dream that we share of a more closely unified trading zone -- are the foundation upon which we must build a truly vibrant organization. Last year marked the birth of our organization; now we must carefully consider what steps we should take in the future to realize its full growth and potential.

The changes that will be considered and undertaken in particular securities markets may turn out to be as profound in their impact as the economic and political reforms currently being implemented in many countries in the region. The work that we do through COSRA can be directed at identifying developments that may be desirable for particular markets, and in marshalling resources to help promote these developments. The members of COSRA, individually and as a group, can be a great source of information, assistance and support to each other. It is my hope that, through COSRA and other relationships, each country in the region will work towards a harmonization of regulation throughout the region, at the same time as individual markets implement specific legal, regulatory and structural reforms.

As the first step towards the realization of our goals, I believe it is important for the Council to articulate the principles that we believe are necessary for the development of sound securities markets. The adoption of a statement of basic market principles would provide direction for developments in individual markets. It would also help to more clearly define the Council's mission and confirm its

commitment to the achievement of market integrity and the maintenance of investor confidence.

Our meetings over the next two days will focus on fundamental market principles: the desirability of full and immediate dissemination to investors of transaction and quotation information; the development of audit trail systems; the quick and efficient clearance and settlement of securities transactions; and the development of effective methods for cross-border surveillance of market professionals. I don't want to take up a lot of our time now discussing each of these principles in detail -- there will be plenty of time for that over the next two days -- but I do want to tell you briefly why I think adoption of principles in these specific areas is important for COSRA at this time.

Liquidity, market efficiency and fairness to all investors, are without question the most desirable components of a securities market. Markets that are defined by the presence of these elements attract broad investor participation and are one of the most important vehicles for economic growth. These characteristics are achieved more easily in markets that provide at least a minimum level of transparency. Regulators therefore need to assess the adequacy of

the transparency of the markets within their jurisdiction, with the goal of providing for public dissemination of last sale reports and firm quotations at the best prices. Although specific degrees of transparency will vary depending on the nature and stage of development in each market, it should be the goal of our markets to disseminate this information on a real-time basis.

We should also strive for consistent levels of transparency in all markets which trade the same security. This is an important goal because of the pricing inefficiencies that may result from fragmented markets. Finally, we need to be cognizant of the fact that markets in which there are lesser degrees of transparency may attract investment away from more highly regulated markets. While competition between markets is desirable, our regulations should not sanction decreased levels of investor protection as a means of competing for order flow.

I know we all share the goal of developing and maintaining securities markets that are free from manipulative and deceptive practices. Markets that are perceived to be honest and fair attract the confidence of investors and issuers. One means of promoting fair markets is through the use of audit trails that monitor market activity

and are capable of detecting unusual trading patterns or market conditions. The design and complexity of audit trails may vary from market to market, but at a minimum, audit trail systems should capture all relevant trade information and produce this information in a timely, accurate fashion.

Audit trails do not need to be automated to perform efficiently, but as markets experience growth in volume, the benefits provided by automation become even more important. The automated capture and reporting of trade information improves the accuracy of the information reported and enables more efficient processing and sorting of information by market authorities. Although automation may not currently be feasible in a particular market, it is an important long-term goal for all of our markets.

Efficiently functioning markets also require reliable clearance and settlement systems. If investors do not have confidence that they will be able to receive cash or securities on a timely basis, then they will take their business to other markets, or make non-securities investments. I believe efforts are underway in most countries to comply with the specific recommendations made in the Group of Thirty report. In addition, COSRA members should consider adopting

a statement of certain fundamental principles that we consider necessary for the development of safe and sound clearance and settlement systems. I believe that a COSRA statement of principles should include a requirement for minimum membership standards, so that we can be assured that the entities which take on these responsibilities have the requisite degree of financial integrity and operational capacity. I also believe it is important for each facility to have a system for monitoring its members' financial condition. Monitoring can provide early notice of risks and will enable a facility to take prompt corrective action.

In addition to self-monitoring, COSRA members should consider the benefits of direct governmental oversight of their clearance and settlement facilities, or self-regulation subject to governmental oversight. Periodic inspection of facilities alerts regulators to systemic and credit risk problems experienced by individual members, and also enables regulators to detect inefficiencies in system operations.

Finally, we need to address the fact that the increasingly international character of our markets has had a significant impact on the provision of investment management services. It is now common

for investment management firms to service clients who reside outside the jurisdiction of the investment adviser. For example, there are currently 284 investment advisers registered with the SEC, that are located outside the U.S. This number includes 53 investment advisers located in the jurisdictions of other COSRA members. In addition, there are 19 investment companies registered with the SEC that primarily invest their assets in other COSRA member countries. If we want to ensure a continuous flow of foreign capital through these advisers and firms, then we must act to ensure the continued integrity of the industry. I believe one of the most important goals for COSRA members should be to share information and assist each other with supervisory functions, so that regardless of the geographical distance between an investor and his advisor, the investor receives the benefits of cooperative regulation. Cooperation among our membership can take many forms, but we must all be committed to sharing and exchanging information about investment companies and investment advisers that are registered and/or conduct their business in more than one COSRA member country.

I am convinced that, if we allow ourselves to be guided by the principles I just outlined, then we will be on the way to achieving our most important goals -- that is, the protection of investors and the

maintenance of markets that meet the highest standards of integrity. I am anxious to hear everyone's views on each of these issues, and so I want to encourage each of you to speak freely. We do not need to be a formal group.

Let me finish by thanking all of you for coming. We have undertaken a mission that will enable us to strengthen the ties that already unite us, and to forge new ones. Exciting opportunities and challenges lay ahead of us, and I am certain that we can accomplish our goals.

Thank you.