REMARKS OF
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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.

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Good morning. It is a pleasure to be here today to discuss such a challenging topic. The national, regional, and international regulatory response to the constant developments in cross-border market activity is vitally important to the health of our markets, and requires vigilance and flexibility on the part of regulators worldwide. As we move to react to changes and developments in the markets designed to encourage the flow of capital across borders, we must always keep paramount the belief that integrity and fairness are the most valuable assets of any market or regulatory scheme, and they must never be compromised in the name of competition or progress. As the Financial Times reported last month, the amount of money "sloshing around the world's financial system" is astounding. For example, net daily foreign exchange turnover last year was $1 trillion; turnover in the Eurobond market was more than $7 trillion last year; the World Bank estimates that global institutional investment funds are worth $14 trillion and cross border equity holdings in the U.S., Europe and Japan reached $1.3 trillion in 1991. The immense challenge presented to regulators by these extraordinary cross-border flows cannot be overstated.

While officially my assigned topic is "Liberalization and Regulatory Reforms in the Three Key Geo-economic Hemispheres," it is important that we not to discuss international regulatory initiatives on a region by region or country by country basis, in the context of regulatory competition. Ambassador Lautenberg has really given us a superb tour of the world already and there certainly are others here that can speak with much greater familiarity about specific regulatory developments in Asia and Europe so I will concentrate on the North and South American continents. With respect to Japan, let me say I share the Ambassador's concern about the speed of opening of the Japanese market and in particular recent moves toward re-regulation -- such as the new burdens placed on firms trading in the Japanese stock index futures markets. Although I strongly believe that regional blocs should not evolve for the purpose of stimulating regulatory competition, the development of regional economic spheres is useful in other contexts, most notably in the role that developed markets can play in cooperating with and providing assistance to emerging markets.

In the U.S., we at the SEC have attempted to work closely with emerging markets and regulators wherever we could provide tangible benefit to a developing market or emerging democracy, including in eastern and central Europe. We have concentrated, however, in our own geographic area, particularly Latin America. Working with the Latin American markets and watching them develop at an extremely rapid pace has been one of the most rewarding experiences of my tenure at the SEC.

Although a number of Latin American nations have made significant strides in the last five years, Mexico particularly has been a model for emerging market economies and developing capital markets. The Mexican government has led the way with privatization initiatives and other market and economic reforms designed to make the Mexican economy integrated and competitive with the rest of the world. These reforms, aimed at producing steady, non-inflationary growth, have included the privatization of state-owned companies, relaxation of foreign trade and investment regulations, removal or reduction of foreign exchange controls, and the undertaking of foreign debt restructuring. Other Latin American countries, most notably Chile and Argentina, are similarly engaged.

Our willingness to dedicate time and resources to technical assistance programs in Latin America reflects a realization of the need for healthy and open markets within our hemisphere. For a number of years, these efforts existed on a fairly modest scale, taking the form of technical assistance in the development of trading mechanisms, enforcement, and regulation of the markets, and a willingness to make extra efforts to assist Latin American companies through the securities registration process when those companies chose to access the U.S. public markets. In addition, a number of regulatory initiatives, such as the creation of Rule 144A which promotes significant liquidity in the private placement market, have been undertaken in part with a view toward attracting regional issuers to the U.S. private market as a stepping stone to the public markets. Indeed, it was through this two-step process that Telmex (the Mexican phone company) came to the U.S. and ultimately has become one of the most actively traded NYSE stocks.

The next level of our cooperation took the form of the development of Memoranda of Understanding, first with Brazil, later with Mexico, Argentina, and Costa Rica. These MOUs memorialized and enhanced existing relationships, and facilitated the investigation and prosecution of cases of cross-border fraud. The SEC has signed MOUs with a dozen or so countries, including many in Europe. They are a critical element of our international program and indispensable to our ability to prosecute cross-border violations, especially insider trading.

Finally, one of our most significant efforts to date has been the formation of the Council of Securities Regulators of the Americas, or "COSRA." COSRA was formed in 1992 by 16 North, South, Central American and Caribbean countries as a vehicle for developing adequate minimum standards for the securities markets of the region. On a tactical level, this cooperative arrangement translates into a commitment to implement the legal, regulatory, and structural reforms necessary to encourage broad-based participation in the securities markets, participation that reaches down past institutions, foreign investors, and the wealthiest individuals to include the larger, hopefully more diverse and growing middle class.

Technically, this means developing rules that foster the basic protection of investors through the ethical treatment of customers and the enforcement of sound accounting principles with standards for full and fair disclosure; developing systems to ensure market transparency and efficient clearance and settlement; establishing linkages among the markets to enhance liquidity; and finally by identifying and working toward the removal of regulatory barriers that unnecessarily impede cross-border investment opportunities. This past June, COSRA members adopted principles for real-time market transparency, cross-border surveillance of investment advisers, creation of audit trails for the detection of fraud and manipulation and principles for improved clearance and settlement systems.

We also maintain very close regulatory ties with the other mature market in the region, namely Canada. Canadian companies comprise the largest segment of foreign private issuers trading on U.S. markets and meeting U.S. disclosure requirements. There are more than 290 Canadian companies traded in the U.S. public markets out of a total of 561 foreign companies. We have longstanding and extremely well developed MOUs with the three provincial securities regulators, and interact with those regulators on a routine basis to combat cross-border fraudulent activity.

The U.S. and Canadian regulatory authorities and capital markets also are partners in a unique scheme that permits issuers in one country to use home country registration forms and meet home country disclosure requirements when offering securities in either country. This multi-jurisdictional disclosure system is a result of a number of factors. Primarily, it demonstrates the depth of the cooperative relationship between the U.S. and Canada. The Canadian-U.S. MJDS system was made possible, after several years of study and negotiation, because SEC and Canadian securities regulators were able to recognize each other's prudential regulations, particularly based on the close similarity between accounting and auditing standards. Given the harmony of regulatory philosophy and the close working relationship, we were able to conclude that transactions conducted under the Canadian MJDS provided an adequate degree of investor protection.

Of course, if the North American Free Trade Agreement survives its somewhat bumpy trip through the U.S. Congress, it will represent the best example yet of regional cooperation and development in our region of the world. The Financial Services chapter of NAFTA is a model for opening markets to foreign investors and market participants, but doing it in a way that places a premium on the protection of domestic investors and the integrity of their market. NAFTA would be a gateway for all of Latin America, the Caribbean, and North America eventually to constitute an enormous free trade zone.

The Financial Services Chapter demonstrates that there need be no conflict between open securities markets and strong securities regulation. NAFTA does this by mandating "national treatment" and "most favored nation treatment" to providers of and investors in financial services from other NAFTA nations. National treatment requires that foreign institutions and investors receive no less favorable treatment than their domestic counterparts in like circumstances. Most favored nation treatment ensures no less favorable treatment than any other foreign market participant. Of course, the U.S. already provides national treatment for foreign brokerage firms and banks. A Swiss or French or Japanese broker-dealer does business in the U.S. on the same terms and subject to the same rules as a U.S. broker-dealer.

Importantly, these general requirements are subject to a prudential exception, which allows a NAFTA country to maintain or adopt measures to protect investors, to maintain the safety of financial firms, or to ensure financial market stability. For example, under our investment adviser statute, domestic banks performing limited advisory functions are not required to register with the SEC. That exemption will not be accorded national treatment, and Mexican and Canadian banks conducting advisory business in the U.S. will be required to register with us as investment advisers.

The opportunities that NAFTA will provide to U.S. financial services firms and banks are quite extraordinary. Over a 10 year transition period, Mexico will move from an essentially closed market for financial services to one in which U.S. investment and commercial banks can compete on a fully equal basis with Mexican firms and banks. NAFTA will also provide a transparent process for rulemaking and licensing within each country. NAFTA also provides for a standstill agreement between Mexico and the U.S. that preserves the current level of cross-border opportunity.

I cite NAFTA, COSRA, and MJDS because they are consistent with my theme that regional cooperation should only be achieved without sacrificing regulatory standards and market integrity. The SEC has always stood for the proposition, sometimes stubbornly so, that international cooperation and harmonization are possible only if accompanied by the maintenance of the highest of market standards. This may sound to some like the old "race to the bottom" argument, and to a certain extent it is. As international markets continue to intersect, and inconsistencies and inefficiencies must be negotiated away, prudential regulation should never be one of the items placed on the bargaining table.

I believe that one of the reasons the Latin American markets are experiencing success is because they have realized that there are competitive benefits to market integrity and transparency. Certainly, these markets are not perfect, and investors there face the risks generally involved in investing in an emerging market. Market volatility of course is a problem, in part because the equities markets of these countries often follow the fortunes of one or a small handful of stocks. These markets are also a long way from achieving the goal of a broad and diverse domestic investor base. And, I am sure that insider trading, and other types of securities fraud, which exist in even the safest of markets, continues to be a significant problem in these markets.

But, through the process of liberalization and market development, many Latin American markets have faced their weaknesses head-on, and seem to have concluded that the best way to encourage participation is to try to provide transparency and market protection, not to lower standards in the name of access. Again, Mexico is a good example of a market attempting to head down the right path. Its recent efforts at securities market reform have all been in the right direction.

The Mexican government has strengthened considerably its ability to prevent and punish the illegal use of inside information. It has placed additional obligations on the stock exchange to ensure proper business practices. The regulatory agency has obtained authority over the way nonpublic information is disseminated to the public, in an attempt to ensure that such information reaches the public in an orderly and uniform fashion, thereby reducing the opportunities for abuse. While only time will tell whether this commitment to transparency and integrity will enjoy long-term survival, it is certainly a big step in the right direction.

International investors are a very sophisticated group, and I believe that they assess the quality of markets, not only in the traditional sense of depth and liquidity, but also integrity and transparency, when choosing where to invest. Markets that appreciate this, and attempt to maintain or achieve these standards, will be the most successful global competitors.

I do not pretend to be an economist, and I will not cite you figures or studies, but it seems logical that investors pay a premium for the opportunity to trade in safe, open markets, and conversely, issuers that choose to raise capital in closed markets, whether or not they are doing so because of something they are unwilling to disclose, pay a premium to list there.

I can find some justification for this theory in the recent activity in the stock of Daimler Benz. As I am sure you are aware, as part of its process to list on the New York Stock Exchange, Daimler recently released its semi-annual report under both German and U.S. Generally Accepted Accounting Principles, and the differences were striking. Under U.S. accounting standards, the company showed a loss of DM949 million, while under German standards it showed a DM168 million profit. By disclosing hidden reserves, shareholder equity in the company increased from almost 19 billion marks under German GAAP to over DM26 billion under U.S. GAAP.

Most interesting, however, was the market's response to these seemingly bearish disclosures. Instead of heading south, the market for Daimler rose by nearly 10%. Reasonable minds can debate the causes of this market reaction; was it an endorsement of Daimler's decision to seek capital outside Germany, or perhaps it was viewed as a recognition on the part of Daimler management that costs and expenses were too high, as evidenced by the loss shown under U.S. GAAP, and that cuts had to be made. It is equally plausible to conclude that it was a number of factors, including the elimination of a discount investors had placed on the price of the stock because of a lack of access to complete and accurate financial numbers.

I think this argument has particular resonance as the unprecedented wave of privatizations continues. As markets compete to list newly privatized companies, issuers should be drawn to the markets that offer the best return. Obviously, if investors expect to get a discount for the risks inherent in trading in markets that are short on disclosure or investor protection, and these markets offer no clear advantage in terms of liquidity, market expertise, or investor base, these markets will not draw the new international listings. In fact, when markets are comparable in terms of capitalization and expertise, integrity will be how markets compete.

Transparency and accuracy are not simply concepts that we value as exports to other markets within our region. We will always believe that nothing is more important to the health of a market, ours or anyone else's, than full and fair disclosure. Without it, markets cannot operate efficiently and investors cannot be protected. And, at its most basic, it is information that reasonable investors want to know.

Take for example recent disclosures concerning Japanese banks. Mitsubishi Bank trades on the New York Stock Exchange and therefore files reports using U.S. GAAP. Under Japanese GAAP, its nonperforming loans to assets ratio was 1.5%. Under U.S. GAAP, that figure rose nearly two and a half times, to a ratio of 3.5%. Certainly, that information is material to the American investor, and such an investor takes a knowing gamble when he or she chooses to invest in another Japanese bank stock, without a reconciliation to U.S. GAAP, and with only a guess as to whether Mitsubishi's 3.5 ratio under U.S. GAAP is, compared to other Japanese banks, high, low, or about average. When I see figures like these, I take comfort in the SEC's oft-criticized position on foreign listings. The SEC has consistently worked with foreign companies to relieve them of strict technical compliance with U.S. accounting rules, but we will not allow a failure to disclose important information - such as hidden reserves - to U.S. investors. Nonetheless, we will continue to work diligently thru the IASC and other vehicles toward the goal of harmonization of international accounting standards.

As the globalization of the securities markets continues apace, it is useful to remember that all markets, developed and developing, have different strengths and weaknesses. Diversity of markets is a positive thing, particularly when coupled with the ability to move and choose freely between those markets when making capital and investment choices. Internationalization should not be a code word for the homogenization of the world's securities markets. But as markets compete amongst themselves for issuers and investors, they should compete on the basis of their strengths, like investor base or cost of capital or technological sophistication, and they must never use the diminution of prudential regulation as a tool of competition.