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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Thank you for the invitation and the opportunity to speak to an audience that is so well-versed in issues of international finance. Since I have been at the Commission, nothing has been more personally fulfilling than working with foreign securities regulators and market participants, and no issues have been more intellectually challenging than those related to the internationalization of world markets. Much of that time has been spent here in Mexico City, so returning here is something like a homecoming for me.

The increasing interdependence of world markets has caused the Commission to focus much of its attention on international issues, and we are redoubling those efforts as the pace of change increases. Before reviewing some of the Commission's recent and ongoing initiatives, I'd like to take a few moments to take stock of just how breathtaking that change has been.

The trend is amply demonstrated by the raw statistics. The Financial Times reported last month that the value of the net daily turnover of foreign exchange transactions last year was $1 trillion, and that the turnover in the Eurobond market was more than $7 trillion. The World Bank estimates the value of global investment funds at $14 trillion and that the value of cross-border equity holdings in the US, Europe, and Japan reached $1.3 trillion in 1991.

The growth in cross-border financings has further fueled by declining interest rates in most of the world, particularly in the US, where long-term rates are among the lowest in the world, and large pools of cash through mutual funds and other media have become available for new investment opportunities. Reportedly, US pension fund managers invested 18 billion new dollars into overseas markets in the first half of this year, an amount that nearly equals the investment for all of 1992. Investors in the US have invested $100 billion in mutual funds that invest outside the US, an amount that is up from $61 billion a year ago.

This particular trend is especially evident here in Mexico. The dollar volume of purchases and sales by US investors in Mexican securities shot up from $363 million in 1982 to over $19 billion in 1992. There are 11 Mexican companies publicly traded in the US today; Telefonos de Mexico is now more actively traded in New York than in Mexico City.

As this last example illustrates, US investors now increasingly have the opportunity to purchase shares of foreign issuers directly on US markets. Presently, over 550 foreign firms are traded in US markets and comply with US accounting standards. A total of 249 foreign issuers have entered our markets since the beginning of 1990 and, over the same period, foreign companies from 30 countries have registered more than $100 billion in 437 new offerings.

As I see it, there are at least three primary factors shaping the global marketplace and the changes implied by all the numbers. Political reform and democratization have naturally encouraged greater economic freedom within countries as well as the liberalization of restrictions on cross-border activity. Privatizations and sales of shares in state-owned enterprises are now commonplace in both economically developed and developing countries. Just as the Berlin wall was taken down, piece by piece, by the popular desire for political freedom, invisible barriers to investment in new markets have been dismantled by the thirst for capital and new prosperity.

In the West, we tend to view political and economic freedoms as intertwined. This concept may not be so deeply ingrained in other parts of the world. Even where political reform has not yet taken root, however, the trend toward market reform is clear, and this is a salutary development for international relations. Increasing cross-border investment and trade not only create the potential for greater global prosperity; they also serve to foster the political and cultural ties that draw people closer together.

A second factor reducing the economic distance between countries is the double and even triple-digit rates of growth in emerging markets. Investors in the US and other countries are eager for the opportunity to obtain a stake in that growth, and their commitment represents a vote of confidence in the continuation of market reform.

Third, the influence of technological innovations, and the implementation of these innovations in every new market cannot be understated. The 24-hour global exchange marketplace is no longer hypothetical; major securities firms routinely "pass their books" from one market center to another. As the world turns, trading goes on -- the global marketplace never sleeps. Before long, we may see the day that every multinational corporation is traded in every major market center, even as the number of market centers expands.

In considering technological advancements, we should not overlook the development of new investment products. The evolution of the market for swaps and other derivative products has been a critical factor promoting the flow of capital across national boundaries, because it has given market participants new ways to hedge the currency and interest rate risks that discourage substantial, long-term capital investment. As derivatives trading becomes more widespread and certain products become more standardized, many of these products may come to be traded on global exchanges.

The trend toward reduced barriers to financial transactions corresponds to international efforts to lower trading barriers generally. In this hemisphere, the free trade movement is embodied in the North American Free Trade Agreement. NAFTA requires most-favored nation and national treatment to providers of, and investors in, financial services from other NAFTA countries. Recently, I testified before Congress on behalf of the Commission in support of the financial services provisions of NAFTA. Our support of the those provisions fundamentally is based on the fact that NAFTA represents an approach that is already reflected in the US securities laws -- namely, that foreign financial service firms should be subject to the same rules as their domestic counterparts and should be free to compete on an equal basis. In addition, NAFTA provides an important prudential carve-out that maintains the ability of signatories to protect investors, maintain the safety of financial firms, and ensure market stability.

Particularly with respect to US-Mexico cross-border financing, NAFTA represents a tremendous advance and comes at a critical time. As more Mexican issuers seek to access the US markets, they will benefit from closer contacts with US securities firms, which can do more to promote the vitality of the Mexican market from Mexico City than from New York. In addition, US investors interested in exploring investment opportunities need the experience and expertise that local financial service firms can provide. NAFTA in addition will help to strengthen the cross-border ties between the US and Canada that are a part of the US/Canada Free Trade Agreement and those that have been established through the adoption by the SEC and Canadian regulators of the Multi-jurisdictional Disclosure System, and it should help to promote more cross-border activity between Mexico and Canada. From a purely US perspective, the opening of the Mexican market to US financial services providers will be a tremendous benefit to US firms and mutual funds which for the first time will be able to organize and operate in Mexico on a fully competitive basis with Mexican firms.

NAFTA could provide even greater potential benefits if other countries become signatories, and the Administration has indicated a desire to include other South and Central American nations that indicate a willingness to lower trade barriers. Unfortunately, NAFTA at this moment remains mired in one of the political free-for-alls that is the number one sport in Washington. However this particular struggle is resolved, it seems clear to me that the development of stronger financial ties among the nations of this hemisphere will continue - the mutual interest of all is too strong, and the linkages are already too well established, to permit an isolationist reaction.

At the risk of belaboring the point, my foregoing remarks are meant to emphasize one central and inescapable fact: the future of international finance is upon us. The question for world governments and regulators is not whether we will adapt to these trends; the only question is how. At the SEC we have tried to adapt our own rules to ensure that they do not pose an unreasonable barrier to access to US markets by both issuers and financial service firms.

At the same time, we have tried to ensure that in adjusting regulatory requirements to reflect the realities of the modern international marketplace, we do not compromise investor protection or market stability. The US pattern of rigorous disclosure, capital, margin, and other requirements, along with persistent enforcement of those requirements and the antifraud provisions, has served our markets well. We have learned through long and hard experience that in seeking to reap the benefits of a free market economy, human ingenuity, resourcefulness, and creativity can be presumed; high standards of honesty, ethics, and responsibility can not. Our attitudes also have been informed by the existence of an investor base that is 50 million strong and growing, but also recognizing that large institutional investors do not always require the full panoply of protections that are necessary for others.

These general principles are reflected in the recent and ongoing efforts by the SEC to review and revise regulatory requirements with the international marketplace in mind. One of our most important tasks is ensuring that foreign issuers have fair access to US markets.

Since the adoption of Rule 144A in 1990, foreign issuers have found the U.S. private placement market to be an increasingly attractive means of obtaining new capital. In the three years since the rule's adoption, 174 foreign issuers or guarantors have made a total of 186 placements of securities with a value of approximately $15.9 billion. Latin American companies have led the way in the use of Rule 144A by emerging market issuers. Since the adoption of the rule, 49 Latin American issuers have sold over $5 billion in securities in 58 offerings, including issuers from Mexico, Venezuela, Argentina, Columbia, Brazil, Chile, and Uruguay. Of those 49 issuers, 29 are located here in Mexico.

The rule allows foreign issuers to access the more limited market for large institutional investors without undergoing the expense and delay inherent in registered offerings, including the necessity of reconciling financial statements to US accounting standards. In addition, these foreign issuers can maintain a degree of confidentiality in advance of the offering that is not possible in a public offering.

Finally, the Rule 144A private trading market allows issuers to gain familiarity with the US market -- its investors, intermediaries, and regulators -- prior to determining whether to become a full participant in the US market. Hopefully, the Rule 144A market increasingly will serve as an intermediary step on the way to public offerings and exchange listings, and in many cases this has occurred -- here in Mexico, Telmex, Transportacion Maritima Mexicana and Vitro all entered the 144A market prior to publicly offering equity shares and listing on the New York Stock Exchange. Press reports indicate that a number of Mexican issuers will be following their lead in the next few months.

In fact, as I noted earlier, recent years have seen an extraordinary increase in public offerings and exchange listings in the US by foreign issuers. The recent listing by Daimler Benz has garnered a great deal of attention, but the fact that Daimler Benz represented the first listing by a German issuer should not obscure the impressive record of exchange listings by foreign companies.

One of the more dramatic examples was the listing on the New York Stock Exchange in October 1992 of the shares of Brilliance China Automotive Holdings, the first such listing of a Chinese concern. The listing occurred notwithstanding the extensive task of reconciling financial statements based on Chinese accounting practices that are radically different from US principles in a number of respects. In June and July of this year, two more Chinese-based companies began trading on the New York Stock Exchange. I should note in addition that China is in the process of developing national corporate and securities laws, and hopefully as its market matures we can look forward to more US offerings.

There may be cases where strict adherence to every nuance of US accounting practice will pose unreasonable costs for some issuers, and I don't think we need to reflexively reject compromise where it is possible. But it is important to appreciate that reconciliation of financial statements to US GAAP is more than the mere reformatting of information and often causes material changes to an issuer's bottom line. The before and after pictures of Daimler-Benz are especially striking: for the first six months of 1993, Daimler showed a profit of DM 168 million; when put on an American diet, the figure shrunk to a loss of DM 949 million. By disclosing hidden reserves, shareholder equity increased from almost 19 billion marks to over 26 billion. Notwithstanding the effect of the reconciliation, as we know Daimler Benz has enjoyed a terrific reception in the U.S., and I commend its officers for their vision and fortitude in making the choice to provide a more complete accounting of its financial condition.

So let us be clear that in addressing this issue we keep the focus where it belongs: the need for investor information and protection, and the assurance that companies wherever located can fairly compete in US markets under the same basic rules. The cost of reconciliation is in my view a secondary consideration and is, in any event, generally quite small in relation to the potential benefits. In taking this approach, we do no injustice to foreign issuers and also ensure that the long-term integrity of the market and trust of American investors is preserved for both domestic <u>and</u> foreign-based firms.

Another point of contention has been the application to international offerings of US rules that restrict the ability of underwriters to purchase securities or rights that are the subject of a distribution, and here I think the Commission really has tried very hard to be flexible and accommodating. These rules are rather unique among world markets, although we believe that they have had a salutary effect in our own. Strict application of those rules in other parts of the world, however, in some cases may be unreasonable where the US tranche is a small part of the global offering or where failure to provide relief could cause some worthy issuers to avoid selling in the US altogether. Accordingly, in recent years, the Commission has granted various exemptions for international transactions where safeguards and undertakings are implemented to assure that secondary market purchases are not used to manipulate share prices.

The Commission recently expanded this approach by granting class exemptions for certain highly capitalized, actively traded German securities, on the theory that the potential for manipulating the price of those securities via secondary market purchases is lessened and that any price distortions from this activity would tend to be more apparent. The exemptions apply to all transactions in Germany, provided that certain disclosure, price transparency, and reporting conditions are satisfied. In addition, because trades in areas outside the primary market centers for the security will not likely effect prices in those markets, the exemptions also apply to transactions in secondary markets that account for less than 10% of published worldwide trading volume.

These latest exemptions represent a continuation of efforts to provide relief to underwriters in international offerings whenever the Commission can feel comfortable that US investors will not be paying prices that are the product of intentional interference with supply and demand. Our efforts in this regard are ongoing, and our willingness to seek compromise on these issues is not limited to our friends in Frankfurt and Munich. In addition, the Commission needs to be able to conduct a comprehensive reevaluation of the trading practice rules, in order to determine whether those rules serve their intended purpose in the modern marketplace, and whether changes are appropriate to more effectively serve those purposes. The Commission expects soon to be in a position to issue a release suggesting alternative approaches and seeking public comment, and I hope that those of you who are interested in these issues will let us know your views and suggestions.

Another area in which the Commission has sought international cooperation is the transparency of price and other market information. The development of electronic order routing and trading systems, the reporting of trades on a "real time" basis, and the availability of audit trails and other surveillance mechanisms are all important aspects of transparent markets. At the SEC, we believe strongly in the value of each of these elements in assuring the honesty and integrity of our markets and in promoting broad-based participation in those markets.

As we move toward a unified, 24-hour global marketplace, it is increasingly important that comparable standards exist in every major market center, and the technological advances that have occurred in recent years mean that this goal should be readily obtainable if the political will exists. The capital investment required to take advantage of the available technology is well worth the cost -- the US market is testimony to the principle that rigorous transparency standards attract investors <u>and</u> capital.

A final topic that is of tremendous consequence to the shape of the internationalized securities market is the ability of world regulators to cooperate in the development of regulatory and enforcement agendas. The importance of strong enforcement efforts in emerging markets cannot be overstated, especially since those markets often are subject to the kind of speculative fever that encourages abuse. This concern is dramatically illustrated by reports of the existence of a Ponzi scheme in Romania that has attracted hundreds of millions of dollars from an estimated one-sixth of the adult population of the country. The U.S. certainly is not immune from these types of schemes -- I see many similar cases cross my desk every day -- though rarely do they survive on such a grand scale. Ultimately, this may be part of the price we have to pay for economic freedom, but we can limit that price with strict regulatory requirements, vigorous enforcement, and substantial sanctions.

A major part of the international outreach effort has been accomplished through the establishment of the formal alliance represented by IOSCO. As IOSCO holds its eighteenth annual conference this week, we all should be conscious of how much harder the task of grappling with the difficult issues we face would be without the framework and relationships that it has established.

Building on that foundation, in 1992 the regulators of this hemisphere came together to form the Council of Securities Regulators of the Americas ("COSRA"). This year, the members of COSRA took a major step forward in announcing a set of fairly detailed principles that will guide the development of individual markets. The principles that were embraced include 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. Next, members must proceed to develop and implement concrete steps to give life to these principles in the form of specific legal, regulatory, and structural reforms. The Mexican government has already responded in July of this year with significant changes to the Securities Market Act.

The SEC's own international enforcement efforts have been substantially aided by the signing of Memoranda of Understanding with financial regulators around the globe. Presently, the Commission is a party to MOUs with authorities in 14 different countries, in addition to various technical assistance and other agreements, and we are constantly on the lookout for new cooperative opportunities. These agreements allow us to share information on trading patterns and market participants, and where particular wrongdoing is known or suspected, to gather evidence and in some cases compel the production of information from third parties in other countries. In addition, we have gained valuable assistance in some cases where no agreement had been signed.

This kind of cooperation is fundamental to the integrity of the entire world system. Wrongdoers must know they will find no safe haven in other corners of the globe. This represents more than good politics -- it is a matter of mutual self-interest.

Those in this room and the delegates meeting this week will be faced in the years ahead with challenges of extraordinary complexity. I tend to be optimistic, but we all know world markets still face significant uncertainties -- the ability of emerging markets to sustain growth, the existence of the political will to continue reducing trade barriers, possible systemic risks associated with derivatives, and others. The one thing we do know is that the game is ours to win or lose together. That reality and its implications should enliven all of our lives for a very long time.