



Benefits of Self-Regulation and Its Contribution to Capital Market

Panel Discussion 2

Presentation by the Moderator

The IOSCO Objectives and Principles of Securities Regulation

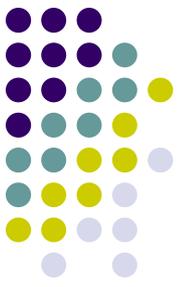


IOSCO's three core objectives:

- ü Taking actions that protect investors
- ü Ensuring that markets are fair, efficient and transparent
- ü Reducing systemic risk

IOSCO Principles for Self-Regulation (Principle 9)

Where the regulatory system makes use of Self-Regulatory Organizations (SROs) that exercise some direct oversight responsibility for their respective areas of competence, such SROs should be subject to the oversight of the Regulator and should observe standards of fairness and confidentiality when exercising powers and delegated responsibilities.



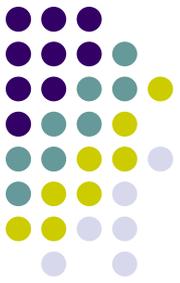
The advantages of SROs

- | Adjacency to the market and market users
 - ü SROs may be able to respond more quickly and flexibly than the government authority to changing market conditions using their expertise and knowledge of business practice

- | Cost saving effect
 - ü Industry bears a substantial part of regulatory costs, through:
 - ∅ Expanding regulatory resources at a lower cost to taxpayers, and
 - ∅ Avoiding unnecessary regulation costs

- | Incorporating ethical standards in regulation
 - ü Moral and ethics (areas difficult to be specified by law) can be covered by self-regulation

SROs' Constraints



I Conflict of interest

- ü Profit making vs. Investor protection
- ü Industry's self-interests might distort regulation or its enforcement

I Regulatory duplication and loopholes

- ü Regulatory duplication caused by multiple tier regulation.
- ü Regulatory loopholes due to unclear demarcation of authority among government regulators and SROs, and among SROs.

Models of SROs



Model 1	Where there is a clear delegation from legislative/regulatory authorities granting the power to enact rules to a self regulation organization, with those rules becoming a part of the legal framework
Model 2	Where there is the possibility for a regulatory authority to approve rules enacted by professionals, with those rules becoming a part of the legal framework;
Model 3	Where rules enacted by professionals (guidance, recommendations, rules for functioning of regulated markets) are not embedded in the legal framework but are nevertheless considered as relevant references by legislative authority and/or courts
Model 4	Where rules enacted by professionals (recommendations, market practices and standards) are used as reference by the industry on a voluntary or contractual basis

Type of SROs

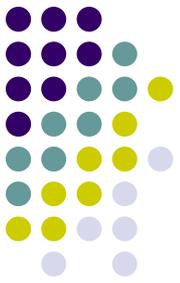
– IOSCO SROCC members



Organization type	SROCC members of ASF Jurisdictions *	Total numbers of SROCC members	
Exchanges	Australian Securities Exchange Bombay Stock Exchange Limited Bursa Malaysia Gre Tai Securities Market Hong Kong Exchange and clearing Limited. Indonesia Stock Exchange Istanbul Stock Exchange Korea Exchange (KRX) MCX Stock Exchange Limited (MCX-SX) Multi Commodity Exchange National Stock Exchange Osaka Securities Exchange Co.,Ltd Shanghai Stock Exchange Shenzhen Stock Exchange Taiwan Futures Exchange (TAIFEX) Taiwan Stock Exchange Corp. The Stock Exchange of Thailand Tokyo Stock Exchange Group,Inc	18	46
Association type SROs	Association of Capital market Intermediary Institutions of Turkey Japan Securities Dealers Association Korea Financial Investment Association Taiwan Securities Association	4	14
Investor protection funds	-	0	5
Clearing houses	-	0	4

* No SROCC members from New Zealand and Philippines

Studies on SROs



- | Model For Effective Regulation
(SROCC 2000)
- | Best Practices for Self-Regulatory Organizations
(ICSA 2006)
- | IOSCO SROCC Working Group on Self-Regulation
- Survey on the Structure of Self-Regulatory Organizations-
(SROCC 2009)
- | Self-Regulation in Securities Markets (forthcoming)
(World Bank 2010)

Discussion Questions



- | SROs' role in regulatory reform in the post-crisis environment
 - ***Larger role or smaller*** role in the Asian-Pacific region?
- | ***Advantages*** of SROs in the new market environment
- | ***Limitations*** of SROs and approaches to ***enhance their role and integrity*** and avoid real or perceived conflict of interest?
- | ***Cooperation*** with national regulators and with international counterparts globally and in the region