



U.S. Securities and Exchange Commission

Regulation in a Global Financial System

by

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U.S. Securities and Exchange Commission

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It is truly an honor to be here at the ICI, and to be here as – for all of a jam-packed three weeks – the 31st Chair of the U.S. Securities and Exchange Commission.

Before I begin, let me say that I join my SEC colleagues in observing the passing of former ICI President David Silver. David led the ICI through a period of extraordinary growth and change, serving as an advocate both for the industry and its millions of investors. His leadership helped the industry thrive by offering investors important innovations and greater choice. Our condolences go out to his family, his many friends and ICI.

As is our standard disclaimer, my remarks today are my own and do not necessarily represent the views of the Commission or other Commissioners.

It should rapidly become clear that my remarks belong only to me because I will be talking about the role of the SEC in an increasingly global financial and regulatory system from the viewpoint of a Chair on Day 18 of her tenure. Already, I find myself emphasizing to some outside the agency that the international aspect of the SEC's role is not a distraction from our important core domestic duties. Rather, that role must be understood in order to fully appreciate the agency's whole mission – to protect investors, maintain fair, orderly and efficient markets, and facilitate capital formation.

And it's how we're furthering that mission through our international efforts that I will speak about today.

But let me let me start with an expression of deep admiration for the SEC and its staff. Ever since my time as U.S. Attorney in New York, I've been thoroughly impressed by the talent and dedication of the men and women at the SEC. That view has only solidified in the three weeks I've been on the job.

Despite the size and complexity of the American financial system and the immensity of the challenges it presents regulators, the SEC staff are doing an exceptional job of protecting investors and facilitating the flow of capital to businesses across this country.

In fact, to say that they're doing an exceptional job dealing with the

American financial system is to understate the scope of their current-day task. Effective regulation of the U.S. financial system requires us to be a part of the fabric of a global financial and regulatory system that transcends political boundaries. And it demands that we match our regulatory and enforcement priorities with those of scores of jurisdictions around the world.

A defining fact of life at the SEC today is that we are not alone in the global regulatory space. And our duty to the investors, entrepreneurs, and other market participants who rely on us means that we must find common ground with our counterparts abroad, collaborate on everyday matters like enforcement and accounting, and knit together a regulatory network that offers protection, consistency, and stability to market participants – especially in the United States but abroad as well. This global reality was quickly and forcefully driven home to me almost from the moment I was sworn in on April 10.

Over the last three weeks I have, for example:

- Attended meetings with the Secretary of the Treasury and central bank heads and regulatory chiefs from Canada, China, Europe, Japan, Mexico, Singapore and Switzerland.
- Been briefed for a meeting of the Financial Stability Board and a London meeting of the International Financial Reporting Standards Foundation Monitoring Board.
- Reviewed, shaped, and voted on a thousand-page proposal for regulating cross-border derivatives transactions, which I'll talk more about in just a few minutes.
- Held personal meetings with the Vice Chair of the Japan Financial Services Agency and the Australian Securities and Investments Commission Chairman, who also is Chairman of the International Organization of Securities Commissions.

And this is only a partial list of my international activities.

This has all occurred because – while I believe that the U.S. has the safest, most resilient and robust markets in the world – we are not the only game in town.

So throughout the SEC, we are cooperating with our foreign counterparts in ways that unleash the fullest potential of our capital markets to drive economic growth and create jobs – and to do so in a way that does not lower the bar or relax the regulatory and oversight standards that protect investors and stabilize markets.

What happens overseas matters here at home, and matters more every day. The fund industry knows this almost better than anyone. American investors and fund managers make decisions based on financial reporting standards developed and financial statements audited overseas. A bad derivatives trade executed by the Asian subsidiary of a Wall Street bank or a threat to an EU-based financial institution could mean layoffs, investor losses, and tighter credit here at home. And the fraudsters seeking to lure clients and tarnish the image of the industry you represent now cross international borders with the tap of a finger or the click of a mouse.

I remember a time when the only stock market reports you heard on the radio driving to work were yesterday's New York Stock Exchange and NASDAQ performances. Now you hear about the FTSE, the Nikkei, the DAX, and the Hang Seng all before breakfast, and it's simply assumed that a retail

investor with, say, a reasonable retirement fund is interested in and affected by all of this.

U.S. investors rely on the SEC to be just as conscious of international financial market development as the business reporter on the local station.

And so the SEC is continuing to build on and strengthen its relationships with overseas regulators on a number of levels. It's a demanding and time-consuming task for the SEC staff and for me personally, but a critically important one.

One-on-one negotiations, membership in global organizations, participation in bilateral and multilateral discussions, domestic regulatory recognition of foreign reporting and accounting practices – these are a few of the ways the SEC is integrating itself into the global financial system.

Over the years, the SEC has played an active role in such international bodies as IOSCO and the Financial Stability Board – which themselves have helped to ensure coordination among financial regulators who share common regulatory objectives. Such coordination not only allows agencies to better achieve their own domestic agendas, but by encouraging the adoption of high-quality regulation around the globe it also helps to prevent regulatory arbitrage.

The SEC has long been at the forefront on multilateral efforts to ensure that broad standard setting is coupled with robust regulator-to-regulator assistance in oversight and enforcement matters. We have negotiated dozens of bilateral and multilateral cooperation arrangements that fill the gaps and facilitate sharing of critical enforcement and supervisory information with our overseas counterparts.

Regulatory globalization is now a continuous and ongoing process, and one that has gotten much more intensive and complex. We often find ourselves sailing in previously uncharted waters.

Until recently, for example, the multi-trillion dollar derivatives market was largely unregulated. In the United States, the SEC was essentially prohibited from regulating derivatives.

Now, in the wake of a financial crisis to which the opaque and potentially destabilizing nature of the derivatives market contributed, the SEC is charged with enhancing U.S. financial stability by working with other regulators to make multiple sets of rules from multiple regulators work in a global market.

Indeed, just two days ago by unanimous vote, the Commission proposed an approach for reconciling the U.S. regulatory system with requirements in other jurisdictions for swaps transacted across borders.

Cross Border

This proposal is so important not only because it recognizes the global nature of derivatives, but because it is a linchpin in our efforts to finalize the new regulatory regime for our portion of the massive, global market that we regulate. It provides needed certainty and "rules of the road" for market participants, including mutual funds investing in derivatives.

With the approval of this proposal, we can now move toward adopting the many substantive derivative rules the agency has proposed over the past

two-plus years.

Importantly, this proposal will help to inform foreign market participants about which rules they must follow when their security-based swap transactions cross our borders in ways that increase risk in the U.S.

Rather than demanding these market participants comply with two or more possibly conflicting sets of rules, this proposal embraces an approach we call "substituted compliance."

It's a workable solution to the potential for conflicting or overlapping rules. And it's an approach that recognizes and appreciates the global nature of regulation.

Substituted compliance would allow foreign market participants -- whose transactions would otherwise be subject to Dodd-Frank Act requirements -- to comply instead with their home country's requirements so long as regulatory outcomes are comparable with those under U.S. law. If, however, the home country does not have corresponding, comparable outcomes, then the foreign participants would have to comply with U.S. rules.

This approach recognizes that we live neither in a "my way or the highway" world nor a world of whole-cloth acceptance of another jurisdiction's regulatory regime. It builds on the SEC's ongoing efforts toward cooperation and collaboration with foreign authorities, including through our work in the OTC Derivatives Regulators Group.

And it gives us the best hope of achieving internationally effective regulation without diminishing the protection our investors and markets demand and deserve. It does so, in part, by robustly and appropriately addressing risk that may come back to the United States through offshore derivative transactions.

The Mutual Fund Industry

Your industry, the fund industry, stands as a clear example of financial globalization and the scope of the regulatory challenge we face. The global mutual fund industry now has representation in 45 countries and manages nearly \$27 trillion in assets tied to markets across the globe. Almost half those assets -- more than \$13 trillion worth -- were managed by the roughly 7,600 mutual funds domiciled in the United States. Many of those funds invest in foreign issuers listed in the U.S. or they invest overseas. Consequently, if there is an accounting scandal in Brazil or a market disturbance in Frankfurt or Hong Kong, American clients of these funds can be harmed.

The ICI itself has acknowledged the growing global footprint of the mutual fund industry and the need for international regulatory coordination.

London-based ICI Global was incorporated in October 2011 to give voice to internationally active investment funds and advocate for transnational solutions to regulatory challenges. And ICI Global's substantive comments on applying the proposed European bonus caps to mutual fund managers and the European Commission's proposed financial transactions tax are important to the dialogue on these international issues.

Money Market Fund Regulation

While the U.S. has been the focus of much of the policy debate surrounding money market funds, these funds are global investors and are an area of focus for international regulators as well.

As regulation moves forward on a several parallel paths, I am hopeful that we can build upon the SEC's past coordination with global regulators to develop approaches that are consistent, workable, and effective.

As the SEC works to develop and propose meaningful money market fund reform, our goal is to preserve the economic benefits of the product while addressing potential redemption pressures and the susceptibility of these funds to runs – runs in which retail investors are especially likely to suffer losses.

While I'm sure that you would like me to say more about this today, I'll stop there as the staff and Commissioners are actively engaged in discussions designed to yield an appropriate and balanced proposal in the near future.

I am confident that the ultimate result of this process will take into account the views of Commissioners who vary in background and perspective, but share the goals of protecting investors and promoting market efficiency and capital formation. The SEC regulatory process is grounded in sound economic analysis and is well-informed by public comment, including helpful comments from the ICI fund investors and others with important and relevant perspectives on money market funds.

This is the process the SEC will bring to bear as it considers proposing money market fund reform. And I hope that ultimately it will lead to a good, investor-oriented result that has been informed by and can be shared with other regulators in the global marketplace.

Benefits of International Reach and Cooperation on Enforcement Actions

Of course, regulatory collaboration is a necessary but not sufficient condition for an effective global financial system. Much of our work coordinating with overseas regulators goes toward ensuring that we have an effective enforcement mechanism.

While international enforcement cooperation has long been important to our mission, it is now more essential than ever to quickly identify suspicious trading involving overseas traders and act, if necessary, to freeze the proceeds.

Fortunately, we have created an effective framework for sharing information across borders during enforcement investigations. It is one of the many products of our bilateral and multilateral efforts.

Remarkably, there are now 94 signatories to the IOSCO Multilateral MOU, which creates a seamless web of securities authorities that are empowered to use their respective enforcement tools on each other's behalf. Additionally, the SEC has 35 bilateral agreements that facilitate enforcement cooperation, cooperation in conducting examinations, and technical assistance.

Fraud and Insider Trading

In one case filed last year, crucial assistance from the Hong Kong securities authorities allowed us to pursue traders who reaped more than \$13 million in

illegal profits by trading in advance of an acquisition. The assistance also allowed the SEC to file insider trading charges and obtain an emergency freeze of assets held in the U.S. by traders in Hong Kong and Singapore.

At the time the case was filed by the SEC, it was only four days after the acquisition announcement, and the SEC did not even know the identities of most of the traders. But the Hong Kong authorities quickly provided the bank, brokerage, and business records necessary to identify the traders and the details of the trades. To date, we have already obtained more than \$17 million in disgorgement and monetary penalties. International cooperation made this happen.

And cooperation goes both ways. In a case parallel to one brought by the Commission, the Ontario Securities Commission brought its own settled action against a former investment banker who is a Canadian citizen. SEC and OSC staffs worked closely together, sharing investigative files and collaborating on compelled testimony in the months leading up to the settlements.

Cross-Border Working Group

We also are complementing and enhancing these international enforcement efforts by using proactive analytic techniques developed entirely within the SEC to confront the increasing number of foreign-based issuers who seek to turn their isolation into opportunities for fraud.

The Enforcement Division, working with colleagues from around the agency, formed the Cross-Border Working Group – an inter-divisional team that brings individuals with a variety of backgrounds and expertise together to address risks associated with U.S. issuers whose primary operations are located overseas. The efforts of this group are paying off.

Although most foreign-based issuers are engaged in legitimate business operations, others may take advantage of the remoteness of their operations to engage in fraud or other securities law violations. We've seen this particularly with respect to certain issuers whose operations are primarily based in the People's Republic of China. As a result, we have brought numerous cases against China-based issuers involving market manipulation, accounting and disclosure violations, and auditor misconduct among other charges.

In addition, to date we have seen the suspension of trading in at least seven foreign-based entities, stop orders preventing further stock sales under materially misleading and deficient offering documents, registration revocation of at least 53 foreign-based issuers, and administrative proceedings designed to determine whether to suspend or revoke the registrations of several more.

FCPA

Of course, misrepresentations and other unlawful actions travel in both directions across borders, which is another reason why our partnership with our regulatory counterparts abroad is so important. Among the most prominent concerns in this regard is bribery by U.S. companies overseas, which not only undermines international markets and governments but also simultaneously undermines the reporting and disclosure integrity of our own markets. Thus, strong and fair enforcement of the Foreign Corrupt Practices Act, which forbids U.S. companies from bribing foreign officials, has been and

will continue to be a priority for us.

Our first objective is to help companies avoid FCPA violations by educating them. And so our staff along with our colleagues at the Department of Justice recently published a comprehensive Guide to the FCPA to give clear guidance and clear up some myths.

Of course, the other side of education is deterrence. Deterrence can mean strong enforcement actions with tough disgorgement and penalties. But it can also mean the tangible benefits that come with cooperation – as demonstrated by the Non-Prosecution Agreement with Ralph Lauren Corporation we announced in April.

In this particular case, the corporation's Argentine subsidiary paid bribes to government and customs officials to improperly secure the importation of their products into the country. The bribes occurred during a period when the U.S. parent company lacked meaningful anti-corruption compliance and control mechanisms over its foreign subsidiary. The misconduct came to light as a result of the company's efforts to improve internal controls and compliance. And the company immediately reported the problem to the SEC and provided exceptional assistance to our investigation.

Successful FCPA cases also increasingly require assistance from foreign law enforcement authorities. That is why we recently partnered with the DOJ and FBI in conducting a foreign bribery training program that provided intensive training to 130 foreign investigators and prosecutors from 30 countries, many on which the SEC staff relies for mutual legal assistance in FCPA cases.

Accounting Standards

Not every international action draws as much attention as a major FCPA action or a rules proposal concerning the multi-trillion dollar derivatives market. There are technical challenges as well – often just as important over the long run, but flying under the radar on a day-to-day basis. For instance, U.S. funds invest large sums in companies based overseas.

The SEC's challenge, then, is to ensure that fund managers, their clients, as well as all types of investors receive accurate, timely, and comparable data when they sit down to study a company's financials – regardless of the country in which that company is based. And how do we accommodate different but equally legitimate financial reporting standards?

In 2007, the Commission agreed to accept the use of International Financial Reporting Standards by foreign private issuers for their financial statements included in Commission filings without U.S. GAAP reconciliations. Over 450 foreign private issuers representing trillions of dollars in market capitalization use IFRS to raise capital in the U.S. In addition, we have eased the deregistration procedures and simplified the Exchange Act registration exemption for foreign companies, recognizing that it is not necessary to require registration and reporting by a thinly-traded foreign company already listed on a foreign stock exchange and subject to similar oversight in its home country.

We also are active participants in the process for establishing accounting standards used globally. The Financial Accounting Standards Board is closely and actively engaged with the International Accounting Standards Board in pursuit of their joint convergence projects, and the FASB also is a

founding member of the IASB's new Accounting Standards Advisory Forum.

But the promise of global accounting standards fades if there is not consistency in their application, implementation, and enforcement. Here again we are active participants not only through the staff's filing review process of foreign private issuers, but also through our collaboration with foreign counterparts bilaterally as well as through IOSCO.

International Oversight

Let me sum up my whirlwind international tour by saying that enhancing our profile as a globally-focused regulator is an ongoing priority at the SEC. From accounting standards to Ponzi schemes, from annual reports to OTC derivatives, the SEC is determined to maintain a regulatory structure that accommodates jurisdictional differences without lowering standards.

This isn't an effort aimed at the elite. Our collaborations with international regulators and considerations of international standards are also meant to protect America's mom-and-pop investors: workers, families, and future retirees who recognize that we live in a global marketplace and seek to maximize their options and returns by looking abroad – or to funds that invest abroad – for opportunities. They seek exposure to international markets through mutual funds, ETFs, and closed-end funds. And they rely both on our vigilance and your expertise as they invest their hard-earned dollars in the international market.

It's a challenge. Accommodating jurisdictional differences while promoting high standards is a delicate task. Understanding that, despite the size and dynamism of our markets, other jurisdictions have different priorities and solutions takes a conscious effort and a more expansive mindset. And weaving international concerns into even the most seemingly domestic rulemaking or policy takes time. But we understand an exclusively, or even largely, domestically-focused regulatory approach is no longer acceptable or effective. American investors are focused on international investing in a global marketplace. American regulators must be as well. That's what I'm committed to doing.

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[Home](#) | [Previous Page](#)

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