

TOPIC 10: Week 11

International Regulation of Finance

Learning Objectives

- ✦ Provide an overview of the international finance and investment architecture.
- ✦ Analyse the issues relating to international regulation of finance and investment.
- ✦ Discuss the regulatory framework of international finance and investment.
- ✦ Provide an analytical review of the regulatory regime.

Introduction

- ✦ International financial markets- bonds, bank loans (debt markets), stocks (equity markets), foreign exchange provide mechanisms for international investment.
- ✦ The *deregulation and liberalisation* of domestic financial markets, combined with advances in *technology* , has resulted in substantial increases in cross border trade in financial services and foreign investment, in particular portfolio investment.

Introduction

- ✦ In the post-Bretton Woods era, banks and financial institutions have adopted innovative financial instruments to diversify earnings and hedge against credit and market risks.
- ✦ This has led to increased international banking activity and also has made financial institutions more interdependent.
- ✦ Thus making more exposed to systematic risks that can arise from bank failures and to volatility in international portfolio investment flows.

Introduction

- ⊕ Financial markets and capital markets have undergone many changes in recent decades.

Introduction

- ✦ The forces of financial globalisation lend urgency to efforts to strengthen the institutional framework of international financial regulation.
- ✦ These changes have been triggered by regulatory changes, notably deregulation/liberalisation locally (i.e. in Australia), regionally (i.e. EU), and globally, by market forces and by technological advances.

International Regulation of Finance

- ❖ In turn, these changes have led to new regulatory challenges and issues: Increased cooperation and coordination among national regulators in developing international standards and rules to promote the efficient functioning of international financial markets.

International Regulation of Finance

- ❁ Various international bodies have influenced the development of international financial regulations; the most important of these are:
 - ❁ The Bank for International Settlements (BIS) is an international organisation which fosters international monetary and financial cooperation and serves as a bank for central banks.
 - ❁ The BIS fulfils this mandate by acting as:

Bank for International Settlement (BIS);

1. a forum to promote discussion and policy analysis among central banks and within the international financial community
2. a centre for economic and monetary research
3. a prime counterparty for central banks in their financial transactions
4. agent or trustee in connection with international financial operations

Bank for International Settlement *(BIS);*

- ✚ The head office is in Basel, Switzerland and there are two representative offices: in the Hong Kong Special Administrative Region of the People's Republic of China and in Mexico City.
- ✚ Established on 17 May 1930, the BIS is the world's oldest international financial organisation.
- ✚ As its customers are central banks and international organisations, the BIS does not accept deposits from, or provide financial services to, private individuals or corporate entities

International Organisation of Securities Commission (IOSCO);

- ❖ The **International Organization of Securities Commissions (IOSCO)** is an international organization that brings together the regulators of the world's securities and futures markets.
- ❖ It, along with its sister organizations, the Basel Committee on Banking Supervision and the , make up the international financial regulators.
- ❖ Currently, IOSCO members regulate more than 90 percent of the world's securities markets.

International Organisation of Securities Commission (IOSCO);

- ❖ Originally formed in 1974 as the "Inter-American Conference of Securities Commissions," IOSCO's name was changed in 1983 as its membership expanded beyond North and South America. (One remnant of its early inter-American roots is that IOSCO's "official" languages are English, French, Spanish and Portuguese). IOSCO currently has 182 members

The main functions of IOSCO

- ❖ to cooperate together to promote high standards of regulation in order to maintain just, efficient and sound markets;
- ❖ to exchange information on their respective experiences in order to promote the development of domestic markets;

The main functions of IOSCO

- ❖ to unite their efforts to establish standards and an effective surveillance of international securities transactions;
- ❖ to provide mutual assistance to promote the integrity of the markets by a rigorous application of the standards and by effective enforcement against offenses.

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