

Healthy International Markets

The impact of financial markets is felt across the economy: from the most advanced high-tech corporation to the smallest farmer; from the average family to the largest treasury; from the most developed economies to those at the frontiers. Financial markets help firms to raise capital and manage risk. Governments access financial markets to fund long-term investments for their citizens. People's savings grow based on market returns.

Financial markets have long enabled cross-border trade and investment. Now more than ever, financial markets in different regions of the world are closely connected and responsive to each other. Yet, financial markets are still rooted in local places. International financial centres are relatively few, but the end-users of financial markets live in every village, city, state and region across the globe. Local regulators set the rules of the market and local authorities enforce them. Market participants invest capital and manage risk across borders, enabling local people and firms to access the keenest pricing and most appropriate expertise.

For international financial markets to be healthy markets, coordination between authorities is crucial. Without such coordination, competition becomes distorted, obviating the benefits of international markets and creating new risks to the system. It is critical that global market participants have cross-border access to well-regulated markets on reasonable and certain terms.

International bodies have done commendable work to facilitate this coordination. The International Organisation of Securities Commissions (IOSCO) has set Principles for Financial Market Infrastructure that regulators across the world look to as robust best practices. The Financial Stability Board of G20 nations has agreed that "*jurisdictions and regulators should be able to defer to each other when it is justified by the quality of their respective regulatory and enforcement regimes, based on similar outcomes, in a non-discriminatory way, paying due respect to home country regulation regimes.*"

Achieving this ambition is, however, an on-going challenge. International coordination is not the only objective of regulators; they must concern themselves also with ensuring the integrity of markets, the protection of investors and the stability of the financial system and economy. Regulators generally acknowledge the need for rules that account for cross-border institutions - including regarding licencing requirements - and accordingly often operate cross-border regulatory colleges and divisions of responsibility between home and host supervisors. Regimes for the assessment and recognition of foreign jurisdictions also exist.

The cost and complexity of these policies poses a major challenge for firms and regulators alike. For many operators of market infrastructure - particularly those in emerging economies - it is difficult (verging on prohibitive) to comply with multiple sets of standards in order to access foreign markets or retain existing clients. When markets fragment, the global economy is less efficient, and capital retreats home—characteristically as a flight from emerging markets.

Among the biggest challenges to international regulatory coherence are:

- Disputes between regulators;
- Delays in recognising foreign jurisdictions;
- Complex and opaque licencing regimes;
- Requirements to create local subsidiaries;
- Duplicative reporting requirements;
- Conflicting home/host rules;
- Lack of transitional arrangements during implementation periods; and
- Extraterritorial legislation.

Many jurisdictions are now assessing their regulatory systems and recalibrating rules based on these findings. Any recalibration that takes place should be done with public consultation and close international coordination. The World Federation of Exchanges considers the optimal system is one of mutual recognition based on global standards and principles of regulatory deference, implemented and overseen by national authorities. We and our members stand ready to work with and support international standard-setters and local regulators to achieve international regulatory coherence.