

# International Affairs

---

*The SEC operates in a global marketplace. The Office of International Affairs works to protect U.S. markets and investors by encouraging international regulatory and enforcement cooperation, negotiating information sharing arrangements for regulatory and enforcement matters, encouraging the adoption of high regulatory standards worldwide, and conducting technical assistance programs.*

---

## What We Did

- Worked with foreign authorities to address cross-border fraud, and signed a Memorandum of Understanding with the Singapore Monetary Authority.
  - Addressed problems with non-cooperative jurisdictions by participating in multilateral efforts to enhance information sharing by secrecy havens.
  - Promoted the implementation of high quality international standards.
  - Offered technical assistance to regulators of emerging securities markets.
- 

## Enforcement Cooperation

The SEC needs assistance from foreign authorities to protect U.S. investors and markets from cross-border fraud. The SEC has developed formal and informal relationships

with foreign authorities for enforcement cooperation, and has brought significant enforcement actions based on information gathered from abroad. The SEC has entered into over 30 formal information-sharing arrangements with foreign counterparts. Most recently, in May 2000, the SEC, together with the U.S. Commodity Futures Trading Commission, signed a Memorandum of Understanding with the Monetary Authority of Singapore.

### **2000 Enforcement Cooperation Results**

Requests to Foreign Authorities for Enforcement Assistance	345
Requests from Foreign Authorities for Enforcement Assistance	519

The following cases illustrate the effectiveness and importance of the SEC's international enforcement program.

- *SEC v. E.ON AG*. The SEC instituted and settled an administrative proceeding against E.ON AG, Germany's third largest industrial holding company (formerly known as Veba AG), based on materially false denials concerning merger negotiations with another German company, which violated U.S. anti-fraud laws. Veba's denials were made in Germany and widely disseminated there and in the United States. Veba settled this administrative proceeding, without admitting or denying the Commission's findings, by agreeing to the entry of a desist order.<sup>13</sup>

- *SEC v. Credit Bancorp et al.* The SEC filed a U.S. District Court action against Credit Bancorp, Richard Blech and others connected with a fraudulent ponzi scheme, and obtained an asset freeze and preliminary injunction. Defendants promised investors risk-free returns of up to 14 percent a year, and induced investors to place the securities in purported trust accounts established at major financial institutions in the name of Credit Bancorp. In fact, the securities were not placed in trust accounts, but were placed in cash or margin accounts whose only signatory was Blech, the CEO of Credit Bancorp, and the promised returns were never met. Instead, Blech misappropriated the funds for his own use, or used the funds to pay earlier investors. The Swiss authorities assisted the SEC by freezing investor funds held in Swiss bank accounts and obtaining documents from Credit Bancorp's offices in Switzerland. The SEC is working with a U.S. Court-appointed trustee-receiver to repatriate money for investors' benefit.
- *SEC v. Hourmouzis and Loughnan.* The SEC filed a district court action against two Australian residents who used the Internet to falsely tout the stock of Rentech, Inc. to millions of investors in the United States and abroad. More than six million messages were posted on Internet sites and made to appear as though analysts wrote them. With the assistance of the Australian securities regulator, the SEC was able to connect the messages to the Australian defendants and to obtain injunctions from violations of the anti-fraud

provisions of the federal securities laws. The Australian authorities are pursuing criminal charges against the Australian residents based on this conduct.<sup>14</sup>

## **Transparency and Disclosure**

### International Accounting Standards

Issuers wishing to access capital markets in more than one country may have to comply with requirements that differ in many respects, including accounting standards to be used in preparing financial statements. Securities regulators have been working on several projects to facilitate capital raising by seeking convergence on accounting standards among major countries. The SEC supports efforts towards convergence on high quality standards that provide investors consistent, comparable, relevant and reliable information.

SEC staff has been active, both directly and through the International Organization of Securities Commissions (IOSCO), in a project of the International Accounting Standards Committee (IASC) to develop international accounting standards that can be used in cross-border securities offerings and listings. Currently, foreign companies that register with the SEC are permitted to either prepare financial statements in accordance with U.S. GAAP or use their home country (or IAS) financial statements, with a reconciliation of net income and shareholder's equity to U.S. GAAP.

In February 2000, the SEC issued a concept release soliciting public comment on accounting, auditing and regulatory issues that affect the quality of financial reporting in a global environment. The SEC specifically raised questions about the possible use of IASC standards without reconciliation to U.S. GAAP in financial statements filed by foreign companies with the SEC. The staff is analyzing the

approximately 100 comment letters received from a wide-range of respondents from the U.S. and other countries and is considering several alternatives for future action.

In addition, in May 2000, IOSCO approved a resolution recommending that its members accept financial statements prepared using IASC standards, as supplemented by national treatments (such as reconciliation) where necessary.

The SEC also followed closely the restructuring of the IASC from an industry organization to an organization dedicated to the public interest. SEC Chairman Arthur Levitt chaired an independent Nominating Committee that selected the trustees of the restructured IASC. The new Board, selected by the trustees based on technical expertise, will have sole responsibility for setting international accounting standards.

### Investor Protection in the New Economy

With all of the highs and lows of today's new economy, the goals of investor protection and high quality corporate disclosure must remain priorities for both securities regulators and market professionals. The SEC chaired the IOSCO Task Force that developed a *Bulletin Regarding Investor Protection in the New Economy*. The Bulletin discusses four areas of heightened importance, to both investors and market professionals, when investing in the new economy:

- the initial public offering process;
- valuation of high tech companies, including accounting and financial reporting issues;
- the effects of short-term trading strategies

on investors' risks and expectations; and

- preserving investor confidence.

## **Non-cooperative Jurisdictions**

The less cooperative a country is in the fight against securities fraud, the more attractive it becomes as a locale for would-be securities law violators and the proceeds of their illegal transactions. The SEC has been actively involved in efforts, on both a country-by-country basis and through international organizations, to encourage “non-cooperative” countries to join the international enforcement community. As a result of this international pressure, the past year has brought about changes in a number of secrecy havens.

### **Financial Stability Forum Offshore Financial Center Working Group**

The Financial Stability Forum (FSF) comprises finance ministries, central banks and financial regulatory agencies, as well as international financial institutions such as the World Bank and the International Monetary Fund (IMF). The FSF determined that offshore countries with weak regulatory systems and a poor ability to cooperate can pose a threat to international financial stability. The SEC represented the United States in the FSF's working group on offshore financial centers (OFCs). The FSF publicly identified a list of OFCs that were perceived to be underregulated and uncooperative. The FSF recommend that the IMF conduct assessments of these OFCs for compliance with relevant international standards.

### **Financial Action Task Force Work on Non-Cooperative**

## Jurisdictions

In June 2000, the international anti-money laundering organization, the Financial Action Task Force (FATF), with significant contribution from the SEC, publicly identified 15 countries as non-cooperative in light of serious deficiencies in their anti-money laundering regimes.

Through its participation in the FSF, FATF, and other similar international efforts to combat problems associated with non-cooperative countries, the SEC has been able to exert pressure on foreign countries to improve their ability to cooperate with SEC requests for assistance. Since being designated “non-cooperative,” certain historically non-cooperative countries are now willing to assist the SEC’s evidence gathering efforts.

## **Implementing International Standards**

### International Organization of Securities Commission’s Core Principles

In 1998, IOSCO adopted the “Objectives and Principles of Securities Regulation” (the Core Principles), which represent consensus on sound practices for regulating securities markets. To promote implementation of the Core Principles, the SEC and other IOSCO members are conducting self-assessments regarding their compliance with the Core Principles. IOSCO also is working with international financial institutions (e.g., the IMF, the World Bank, the Asian Development Bank, and the Inter-American Development Bank), which are using the Core Principles in their reform and restructuring work.

### Joint Forum

Through its work on the Joint Forum, the SEC is addressing issues that are of common interest to securities, banking and insurance regulators. The Joint Forum develops guidance to promote consistency in regulation of the different sectors of the financial services industry.

The SEC has participated in the Joint Forum's working groups that are studying the following issues:

- comparison of the structure and content of the core principles issued by securities, banking and insurance supervisors;
- approaches to corporate governance of regulated entities and the use of audits in the supervisory process; and
- approaches to risk assessment, internal controls, capital requirements and group-wide supervision.

### Financial Stability Forum Implementation Task Force

The FSF is considering how to promote the global implementation of international standards to strengthen financial systems. SEC staff is working with the U.S. Department of the Treasury, Federal Reserve Board, and other FSF members on (a) identifying issues that may arise when countries adopt international standards, and (b) developing incentives, including technical assistance, to encourage countries to adopt international standards.

### Technical Assistance

The SEC's technical assistance program helps emerging securities markets develop regulatory structures that promote investor confidence and capital formation. The program is multifaceted and includes training programs, review of foreign securities laws, and responses to specific inquiries from foreign regulators.

### **2000 Technical Assistance Results**

Requests for Technical Assistance from Foreign Authorities	222
U.S. Training Provided	460 Officials from 71 Countries
Overseas Training Provided	Over 245 Officials

The cornerstone of the SEC's technical assistance program is the International Institute for Securities Market Development, a two-week, management level training program covering the development and oversight of securities markets. In addition, the SEC conducts a weeklong International Institute for Securities Enforcement and Market Oversight, covering techniques for investigating securities law violations and oversight of market participants.

SEC staff participated in a range of overseas training initiatives including: a capital markets program in Bahrain for regulators from nine countries; corporate governance and clearance and settlement programs in the Russian Federation; and enforcement and self-regulatory organization programs in China.