



ICSA

INTERNATIONAL COUNCIL of SECURITIES ASSOCIATIONS

January 4, 2007

Professor Hal S. Scott
Nomura Professor of International Financial Systems and
Director of the Committee on Capital Markets Regulation
Harvard Law School
1563 Massachusetts Avenue
Cambridge, MA 02138

Dear Mr. Scott:

We are writing to you in your capacity as the Director of the Committee on Capital Markets Regulation on behalf of the International Council of Securities Associations (ICSA), which is comprised of the trade associations and self-regulatory associations active in the world's major securities markets.¹ We would like you to know about the work that is being carried out by ICSA members regarding better regulation, governance of market infrastructure providers and self-regulation in financial markets. We believe that this work may be of interest to members of the Committee on Capital Markets Regulation.

Regarding the first issue, ICSA members have recently developed and endorsed a set of *Principles for Better Regulation*, which are attached. The Principles build on the "better regulation" initiatives that regulators in a number of jurisdictions have proposed and, in some cases, implemented. They derive from the fact that regulations on occasion have the unintended effect of reducing market efficiency. Among other measures, the *Principles* suggest a framework for evaluating: (1) when new regulations are necessary; and (2) alternative measures that could achieve the same objective at a lower cost in terms of market efficiency.

ICSA members have also been studying the ongoing process of consolidation and demutualization among market infrastructure providers. Given the tendency for these entities to gain dominant or monopolistic market positions, ICSA members have recently endorsed *Principles for the Governance of Market Infrastructure* that are intended to serve as a prototype for governance arrangements at demutualized market infrastructure

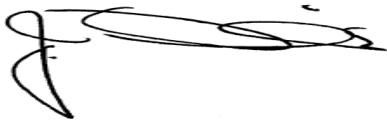
¹ The members of the International Council of Securities Associations (ICSA) represent and/or regulate the overwhelming majority of the world's equity, bond and derivatives markets. ICSA's objectives are: (1) to encourage the sound growth of the international securities markets by promoting harmonization in the procedures and regulation of those markets; and (2) to promote mutual understanding and the exchange of information among ICSA members. A list of ICSA members is attached to this letter.

providers. These Principles, if implemented, will help to ensure that the interests of users, the investing public and the economy are protected regardless of the infrastructure provider's ownership structure. A copy of the ICSA *Principles for the Governance of Market Infrastructure* is attached.

ICSA members have also been involved in a comprehensive study of the role of self-regulation in financial market, including a survey of a number of SROs active in different jurisdictions. We believe that the results of this survey, which is included with this letter, will be of interest to the members of the Committee on Capital Markets Regulation. ICSA members have also recently endorsed a set of *Best Practices for SROs*, which propose measures that self-regulatory organizations can implement in order to address concerns about conflicts of interest, regardless of the SRO's structure or the jurisdiction in which it is active. A copy of the *Best Practices for SROs* is also attached.

We hope that the members of the Committee on Capital Markets find these documents useful and would be more than happy to meet with you or other members of the Committee in order to discuss the work being carried out by ICSA.

Best regards,



Joe Oliver
President and CEO, Investment
Dealers Association of Canada
and Chairman, ICSA Advisory Committee



Marilyn Skiles
Secretary General
ICSA

The following associations are members of ICSA:

Association of Capital Market Intermediary Institutions of Turkey (TSPAKB)
Australian Financial Markets Association (AFMA)
Bond Exchange of South Africa (BESA)
French Association of Investment Firms (AFEI)
International Capital Market Association (ICMA)
Investment Dealers Association of Canada (IDA)
Italian Association of Financial Intermediaries (Assosim)
Japan Securities Dealers Association (JSDA)
Korea Securities Dealers Association (KSDA)
London Investment Banking Association (LIBA)
NASD
Securities and Financial Markets Association (SIFMA)
Swedish Securities Dealers Association (SSDA)
Taiwan Securities Association (TSA)