



OICU-IOSCO

Systemic Risk Research at IOSCO

By Werner Bijkerk
Head of the Research
Department, IOSCO

Outline

Research Department & Systemic Risk

- I. Introduction
- II. Methodology
- III. Research Department Work Program

Outline

Research Department & Systemic Risk

I. Introduction

II. Methodology

III. Research Department Work Program



Introduction (1)

1. IOSCO Strategic Direction 2010-2015:

New Mission and Goals:

Identify and seek to address systemic risks to the fair and efficient functioning of markets, especially through:

- *Building an independent research capacity* to identify risks to the fair and efficient functioning of markets and
- *Liaising with other international financial standard setters and other global bodies* having a mission complementary to that of IOSCO, applying the research capacity to inform and enhance such liaison

Introduction (2)

2. New Principles:

Principle 6:

The Regulator should have or contribute to a process to ***monitor, mitigate and manage systemic risk***, appropriate to its mandate.

Principle 7: The Regulator should have or contribute to a process ***to review the perimeter of regulation*** regularly.

Introduction (3)

3. The Creation of the IOSCO Research Function:

- a. Independent Research Department at the Secretariat
- b. Standing Committee on Risk and Research

Outline

Research Department & Systemic Risk

I. Introduction

II. Methodology

III. Research Department Work Program

Methodology (1)

2010: No methodology for securities regulators

2011: First ideas of a methodology - *Discussion Paper Mitigating Systemic Risk: A Role for Securities Regulators*

2011: Elaborating and discussing ideas for a research methodology

2011 onwards: Learning-by-doing we will develop a more robust methodology

Methodology (2)

Discussion Paper Conclusions:

1. Crisis demonstrated the need for securities regulators **to add monitoring and mitigation of systemic risks** to their traditional responsibilities for maintaining fair and efficient markets and protecting investors;
2. The nature of systemic risks in financial markets means that, while securities regulators can learn from the monitoring techniques used by central banks and prudential supervisors, they will have **to develop their own approaches** to identifying and monitoring these risks;
3. Securities regulators' traditional policy tools seem to be appropriate for mitigating and monitoring – but the necessary innovation for regulators will be **to adopt a systemic risk perspective in choosing when and where to use them and when to go further.**

Methodology (3)

Key elements securities regulators' approach:

- 1. *Disclosure and transparency*** are critical to identifying the development of systemic risk and to arming regulators with the information needed to take action to address it. Transparency in markets and products is crucial to understanding and mitigating systemic risk, in addition to allowing market participants to better price risk. ***Securities regulators have a particular responsibility and interest in promoting transparency*** at the market level as well as adequate disclosure at the product and market participant level;

Methodology (4)

2. Robust regulatory supervision of business conduct is essential to ***managing conflicts of interest and the build-up of undesirable incentive structures*** within the financial system. Without it, incentives can quickly become distorted with drastic consequences such as increased leverage and risk in the system. With it, investor confidence is likely to provide greater stability to the market.

Methodology (5)

3. *Financial innovation* and its implications for financial stability should be a focus for securities regulators.

Innovation should be encouraged and facilitated where it has the potential to improve the efficiency of the markets or to bring useful products and new participants to the market. Innovation which involves opacity or improper risk management should be carefully monitored.

Methodology (6)

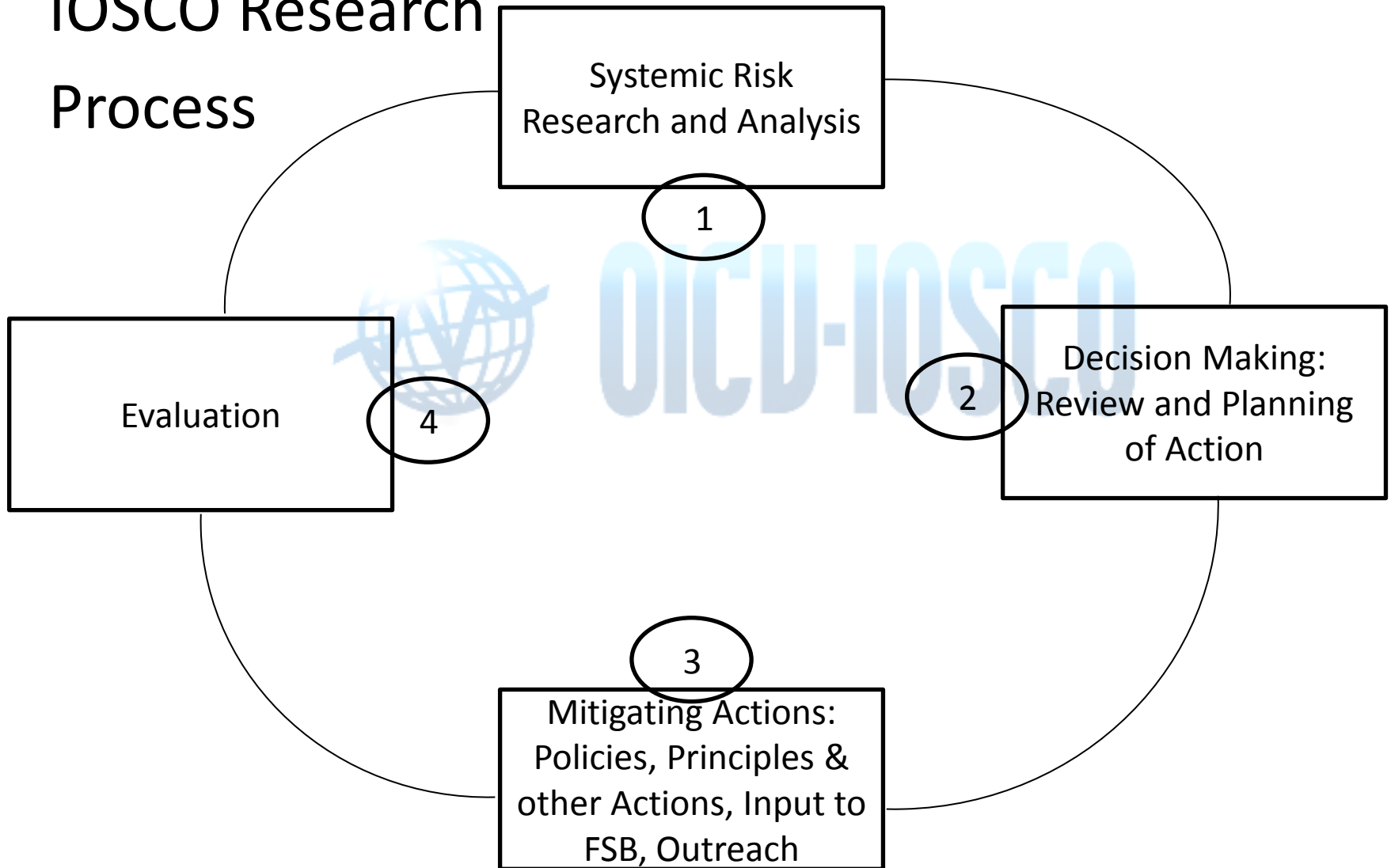
4. Given the central role of markets in the overall financial system and their capability to generate and/or transmit risks, ***securities regulators should work with other supervisors to improve the overall understanding of the economics of the securities markets, their vulnerabilities and the interconnections*** with the broader financial sector and the real economy. Sharing market information and knowledge, will be essential to deliver a truly efficient regulatory response to systemic risk.

Methodology (7)

5. It is important for securities regulators to ***develop key risk measurements*** relevant to systemic risk arising within securities markets, and improve their understanding and application of tangible steps to mitigate identified systemic risk.

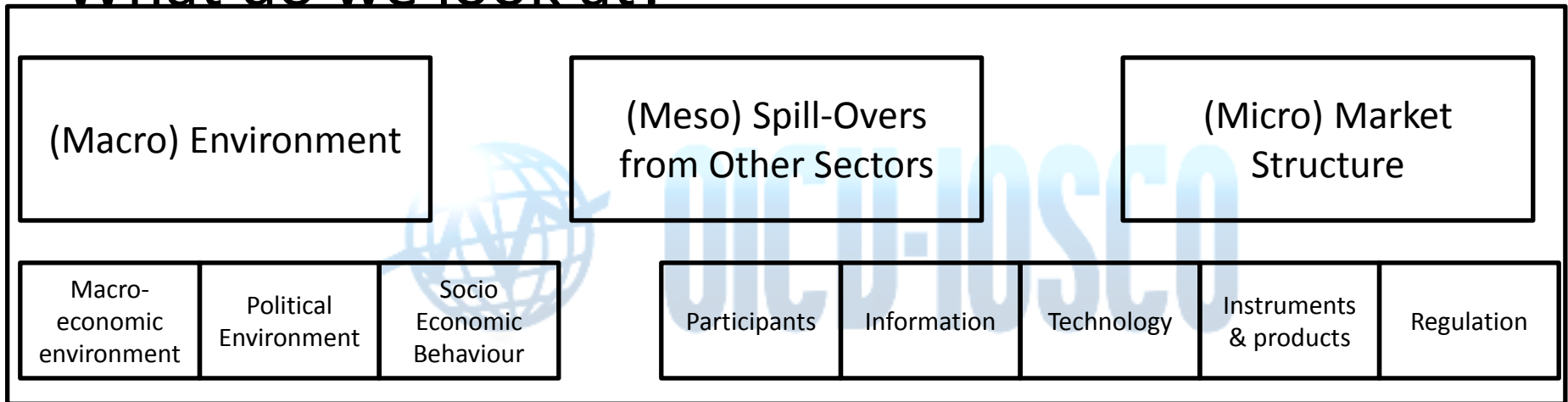
Methodology (8)

IOSCO Research
Process



Methodology (9)

What do we look at?



Research and analysis lead to tangible research reports with options, solutions and mitigating actions.

Outline

Research Department & Systemic Risk

I. Introduction

II. Methodology

III. Research Department Work Program

Research Department Work Program (1)

Research at IOSCO through:

1. Standing Committee on Risk and Research (SCRR), Chairman Carlos Tavares (Portuguese CMVM).
2. Research Department, Head Werner Bijkerk, is currently being built up at the IOSCO Secretariat. Independent research function within IOSCO.

Research Department Work Program (2)

Standing Committee on Risk and Research:

1. Development and maintenance of a research methodology for systemic risk by securities regulators (including producing risk indicators)
2. Review of analyses and research on relevant risk assessment and interaction with external experts
3. Carry out impact assessment for the Executive Committee
4. Experts' input to the products of the Research Department
5. Advice on the IOSCO Objectives and Principles and the Methodology in relation to Principles 6-7

Research Department Work Program (3)

Research Department:

1. Production of relevant and timely risk reports that offer options for monitoring and mitigation of the systemic risks.

These reports will be:

1. Annual IOSCO Risk Outlook
 2. Exploratory Analysis on single risk topics (in-depth analysis)
 3. Ad-hoc and data analyses
2. Provide input to the SCRR to do its research, and coordinate SCRR's work with the needs of the IOSCO Board and the Policy Groups
3. Work together with other organizations with similar mandates as IOSCO, like FSB, IMF, OECD etcetera.

Research Department Work Program (4)

First output and work in progress:

- Discussion Paper: *Mitigating Systemic Risk: A Role for Securities Regulators*
<http://www.iosco.org/library/pubdocs/pdf/IOSCOPD347.pdf>
- Creation of Standing Committee on Risk and Research
- Hedge Fund data analysis report (confidential)
- Research Note on Credit Hedge Funds (confidential)
- IOSCO Risk Outlook (exp. May 2012)

Research Department Work Program (5)

How does it do its work?

- Plain data analysis
 - Publicly available data
 - Shared work with other global researchers (IMF, BIS etc.) and stakeholders
- Intelligence system
 - Market intelligence: interview experts from the markets and view their operations
 - Experts from IOSCO members (SCRR)
 - Experts from the academic world
 - Experts from other global researchers (IMF, BIS, OECD etc.)

Research Department Work Program (6)

IOSCO Risk Outlook

What are the key risks impacting the securities markets for the near future?