



Annual Report 2012

INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS

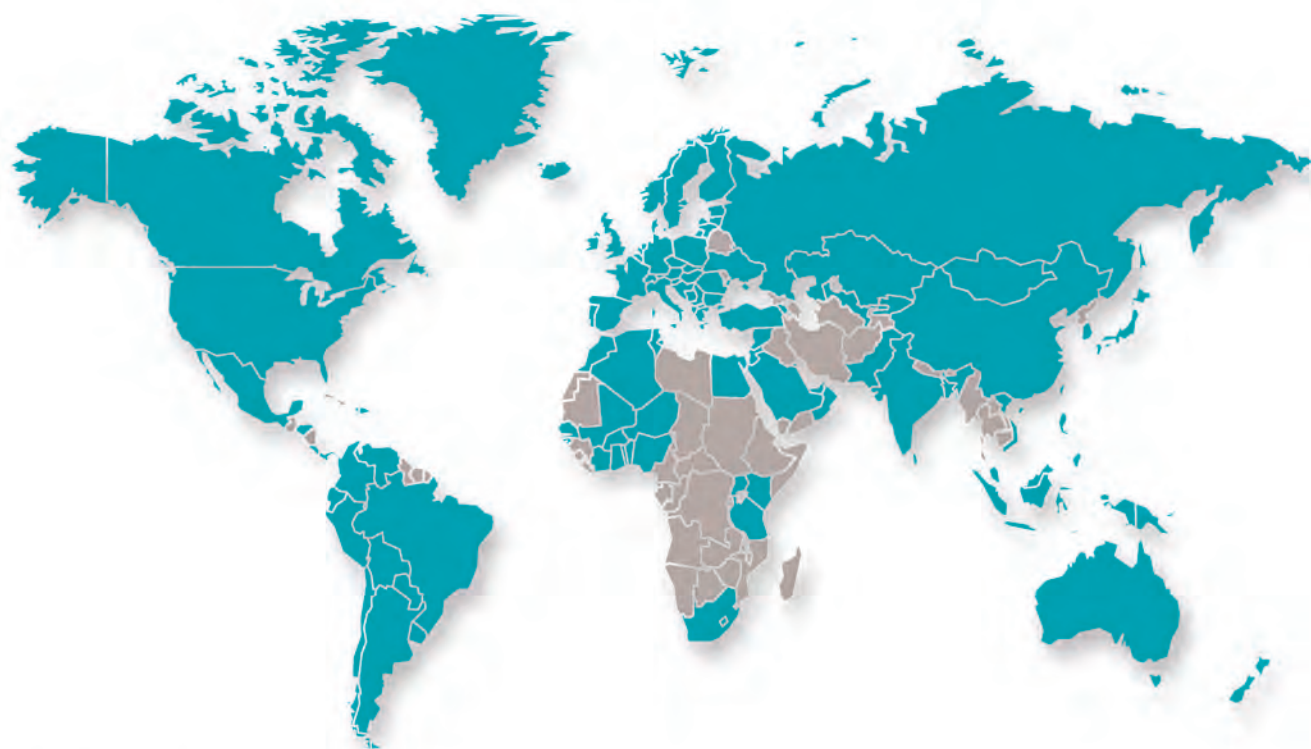


OICU-IOSCO

IOSCO OBJECTIVES

- to cooperate in developing, implementing and promoting adherence to internationally recognized and consistent standards of regulation, oversight and enforcement in order to protect investors, maintain fair, efficient and transparent markets, and seek to address systemic risks;
- to enhance investor protection and promote investor confidence in the integrity of securities markets, through strengthened information exchange and cooperation in enforcement against misconduct and in supervision of markets and market intermediaries; and
- to exchange information at both global and regional levels on their respective experiences in order to assist the development of markets, strengthen market infrastructure and implement appropriate regulation.

I O S C O M E M B E R S H I P



IOSCO MEMBERSHIP

NON-MEMBER JURISDICTIONS

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Report from the Incoming Chair of the IOSCO Board

Greg Medcraft

> Incoming Chair of the IOSCO Board
Chair, Australian Securities and Investment Commission

I take on the role of Board Chair during a period of challenge and opportunity for securities regulators globally. Market based financing is becoming increasingly important as is the need for consistent regulation of cross-border activity. Growth and emerging economies are also becoming increasingly important to the health of the global economy.

My key objective as Board Chair will be for IOSCO to be recognized as the key global reference body for securities regulation. I want IOSCO to be seen as effective, pro-active and forward looking in meeting these challenges and opportunities.

IOSCO'S ROLE

IOSCO has a role and is well placed to support its members as we address each of these challenges and opportunities.

1. Market-based financing

New rules to strengthen the banking system are imposing higher capital and liquidity requirements. The net effect of this is often a decreased access to debt capital and an increased cost to business. As a result, many businesses are turning to market-based financing to source their capital.

On the supply side, the continuing global growth of the pension and superannuation sectors is a key driver of market-based financing, as most of their funds are invested in the debt and equity capital markets. The global growth of pension and superannuation sectors is expected to continue in the coming decade as governments in emerging markets start or expand retirement savings programs, and in many developing countries, an aging population contemplates how to fund their retirement.

This shift of funds from the banking sector to the securities sector means that financial services and markets regulation (and therefore IOSCO) have an increasingly important role to play.

2. Consistent regulation

Globalization is a fact of life in financial services and securities markets with more markets and products crossing jurisdictional borders. Any inconsistencies or differences in regulatory frameworks can increase the cost of capital and doing business, which may ultimately affect economic growth.

Inconsistencies or differences are inevitable, however, as policy makers in each country will inevitably take different approaches to implementation for various domestic reasons.

IOSCO has an important role to play in developing global standards and principles to guide its members and other stakeholders and so promote consistent and aligned regulation between different jurisdictions based on equivalent outcomes.



3. The rise of emerging markets

Emerging economies are the key to leading global economic growth over the next 10 years. As their markets develop, so will their need for effective regulation. It's important that growth and emerging economies have sound regulation that promotes market integrity and confidence. It also helps if they adopt regulation that is consistent with other jurisdictions, so that regulatory arbitrage is minimized and cross-border transactions are not impeded.

By developing global rule books and regulatory guidance, IOSCO can play a key role in supporting the development of regulatory capability and capacity in these economies.

IOSCO can also provide a voice in other international fora (such as the Financial Stability Board) for the interests and concerns of regulators in these economies.

MY VISION FOR IOSCO – THE KEY GLOBAL REFERENCE BODY FOR SECURITIES REGULATION

Developing into the key global reference body will involve building on and developing the good work of IOSCO in three ways – through our standard setting work, through engagement and through cooperation.

Standard setting

We should work to ensure the regulatory guidance we develop is timely, relevant and usable. We should aim to be ahead of the curve in the topics we choose and develop sufficiently granular guidance to guide policy makers and regulators. Our recent work on financial benchmarks is a fine example of the role we can play as standard setters.

Engagement

We should ensure IOSCO continues as the premier forum for regulators to engage and work together. We have a proud record of helping to build trust and understanding among regulators from different markets who may have different philosophies about regulation. Equally important is ensuring we engage with industry and other stakeholders. Effective and meaningful consultation with industry is fundamental to good policy development. Maintaining a close dialogue with industry is critical as it helps us to better understand emerging risks and the impact and consequences of the steps we propose taking.

Finally, engagement with policy makers is essential. It allows us to initiate and influence regulatory reform across jurisdictions.

Cooperation

IOSCO also has a proud record in promoting cooperation between regulators. The Multilateral Memorandum of Understanding on cooperation and information sharing, now with 95 members as full signatories, has been an important support for cooperation in enforcement matters that span multiple jurisdictions.

There are opportunities for us to extend this same level of cooperation to investigations, to promote better supervision of global market players and solving global issues.

Another element to cooperation is providing technical assistance to regulators in emerging markets. About 75% of IOSCO's members are from developing countries. IOSCO supports them in implementing standards and ensuring those standards are effective.

Finally, cooperating with industry through the IOSCO Foundation will enable more technical assistance to be provided.

DELIVERING ON THE VISION - OPPORTUNITIES FOR 2013/2014

In the next year, I see a number of opportunities for us to deliver on this vision.

The IOSCO Foundation: Building regulatory capability

We will continue to work to establish the IOSCO Foundation in 2013. I strongly urge all IOSCO members to work with industry and other donors in their jurisdictions to support the Foundation on an initial and on going basis.

Once established, the Foundation will be important to delivering on the vision. It will fund capacity building through the provision of technical assistance, training and education to improve the capability of regulators and the quality of their supervision globally. This will help regulators – particularly in growth and emerging economies – to develop the tools and resources they need to meet many challenges, including the growth of market-based finance.

Innovation-driven complexity

Keeping pace with innovation-driven complexity is an ongoing challenge for regulators globally. It can be a

constant struggle for regulators to monitor the emerging risks and to respond in a way that doesn't unduly restrict the benefits of innovation.

IOSCO will need to be proactive and forward looking to address this challenge.

We see examples of innovation-driven complexity in products, markets and technology. IOSCO has a role to play in each of these.

Complex products can be difficult for investors to understand. This can lead to them being mis-sold, particularly when investors are searching for yield. This is particularly relevant in the current environment. Our current work on retail structured products will provide us with a tool kit of regulatory measures to address these risks. The Committee on Retail Investors, which was established at the Sydney Board meeting in March 2013, will be an opportunity for us to share and better understand the measures many of us have developed to assist investors in making confident and informed decisions about investing in other financial products.

Innovation-driven complexity in markets has presented us with dark pools and high-frequency trading which pose new regulatory risks. Advances in technology have led to the rise of cybercrime in the financial system globally. There are on-line scams promoting *bogus* investments, and equity trading accounts are at risk of being hacked. The way market information is distributed has changed dramatically, with social media playing a greater role. These developments present new risks to which we must adapt. I look forward to further work on these issues through the next year.

Cross-border Regulation

In the coming year, IOSCO will be developing a tool kit of measures used by members to regulate the activities of foreign firms in their jurisdictions. The work is likely to consider measures that include substituted compliance, mutual recognition, passporting and expedited processing. The work may lay the foundation for the development of guidance about the co-ordinated use of measures in the tool kit.

Development of the tool kit will contribute to reducing the adverse impact of regulatory differences on cross border activity and, by improving interoperability of our markets, will provide more cost effective access to cross-border capital markets.

International Secondments

We can further deepen co-operation by encouraging and facilitating staff secondments between our mem-



bers. Secondments give us the chance to share experiences and established best practice, build our collective skills and knowledge and strengthen our working relationships. They will also help in creating greater consistency in how we approach the common problems and challenges we face.

IOSCO has a role to play in encouraging and supporting secondment activity. This year we will develop a Register which will record secondment activity between members. The Register will provide transparency about secondment initiatives between our members and reduce search costs for agencies wanting to participate in secondments.

Finally, I want to thank outgoing Chair, Masamichi Kono, for his significant contribution in leading IOSCO's transition to a single Board (and in his previous roles as Vice-Chair and then Chair of the Technical Committee).

In each of these roles he has provided well informed leadership in the many policy areas in which we have worked. Masa has been unfailingly courteous in guiding discussion and seeking to achieve consensus in often challenging circumstances. He has at all times ensured IOSCO's voice and position are well understood and heard in the many international fora in which he has represented IOSCO. For this we thank him.

CONCLUSION

I look forward to working with the Board, our Emerging Markets Committee (to be formally renamed the Growth and Emerging Markets Committee at the IOSCO Presidents Meeting in September) and our membership during my term to both build and develop IOSCO, and support our members in meeting the many challenges we face together.



Report from the Outgoing Chair of the IOSCO Board

Masamichi Kono

- > Chair of the IOSCO Board, May 2012 – March 2013
- Chair of the IOSCO Technical Committee, April 2011 – May 2012
- Vice Commissioner for International Affairs, Financial Services Agency, Japan

In the period from May 2012 to April 2013, IOSCO played an increasingly prominent role in global standard-setting for financial markets. Much of this work was mandated by the G20 and the Financial Stability Board (FSB), as part of the international financial regulatory reform agenda. IOSCO significantly enhanced both its visibility and its engagement with global stakeholders in the period.

The past few years have been challenging for IOSCO, as it sought to develop principles for financial reform and to deliver reports within an extremely tight time frame. But the experience was also rewarding. Members who participated in the multiple work streams deserve credit for moving forward IOSCO and its agenda. Since it is impossible to describe all of IOSCO's activities in this short report, I will focus on a number of key policy issues related to the G20/FSB agenda that shaped IOSCO's work over the past year. I would also like to touch on the important efforts to strengthen IOSCO's organizational structure for the purpose of making it more inclusive and better able to serve its members. Also worthy of mention are the efforts to enhance international cooperation in the implementation and enforcement of market regulation on a global scale.

Important work mandated by the G20/FSB

Five years after the international financial crisis erupted in 2008, work mandated by the G20/FSB is well advanced, but far from complete. Increasingly, attention is focused on the non-bank sector and financial market infrastructure, i.e., areas in which IOSCO has particular relevance and expertise.

OTC Derivatives Market Reform

Work at IOSCO

IOSCO, in collaboration with other standard setters such as the Basel Committee on Banking Supervision (BCBS) and the BIS Committee on Payment and Settlement Systems (CPSS), was tasked with developing principles and standards that would promote reforms to strengthen financial market infrastructures, particularly in the context of over-the-counter (OTC) derivatives. The recent financial crisis exposed weaknesses in the structure and operations of the OTC derivatives markets and contributed to the build-up of systemic risk. In 2009, the G20 leaders launched a reform program to improve transparency, mitigate systemic risk and protect against market abuse in the OTC derivatives markets. After issuing reports on the trading of OTC derivatives (February 2011) and a follow-up analysis (January 2012), IOSCO published reports on the requirements for mandatory clearing (February 2012) and on international standards for regulation of derivatives market intermediaries (June 2012).

Work at CPSS-IOSCO

In parallel, IOSCO conducted joint work with CPSS (under the title of CPSS-IOSCO) to review and update



international standards for financial market infrastructures (FMIs)¹ that facilitate the clearing, settlement, and recording of monetary and other financial transactions. FMIs can strengthen the markets they serve and play a critical role in fostering financial stability. If not adequately managed, FMIs can pose significant risks to the financial system and be a potential source of contagion, particularly in periods of market stress. Although FMIs performed well during the most recent financial crisis, their experience had important lessons

for effective risk management. In April 2012, IOSCO and CPSS jointly published a report on *Principles for Financial Market Infrastructures* (PFMIs), which replaced previously existing recommendations and principles applicable to FMIs. This report supports the initiatives of the G20/FSB to strengthen core financial infrastructures and markets. It also incorporates guidance for central counterparties (CCPs) that clear OTC derivatives. All CPSS and IOSCO members are committed to adopting and applying the updated standards to

¹ The term FMIs refers to systemically important payment systems, central securities depositories, securities settlement systems, and central counterparties, as well as trade repositories for OTC derivatives markets.



the relevant FMIs in their jurisdictions, to the fullest extent possible.

IOSCO is also developing guidance on the essential features of recovery and resolution regimes for FMIs. Since the disorderly failure of an FMI could lead to severe systemic disruptions, they should have effective recovery plans and resolution regimes that ensure the continuation of core services and an orderly resolution. To this end, CPSS-IOSCO published in July 2012 a consultative report on the recovery and resolution of FMIs.

In a related area, CPSS-IOSCO is developing standards for reporting requirements to trade repositories (TR) in

order to facilitate effective global aggregation of data. After publishing in January 2012 a report on OTC derivatives data reporting and aggregation requirements, CPSS-IOSCO issued in April 2013 a consultative report on authorities' access to TR data.

[Work on margin requirements for non-centrally cleared derivatives transactions](#)

An important element of OTC derivatives market reform is the development of standards for margin requirements on non-centrally-cleared derivatives. The G20/FSB mandated this work in 2011 as part of an effort to mitigate systemic risk of non-centrally cleared OTC derivatives markets and to create incentives to centrally



clear those products to the extent possible. A working group was established in conjunction with the Basel Committee for Banking Supervision (BCBS) to take forward this work, and a consultative report was issued in July 2012. After considering the public comments to the report and the results of a quantitative impact study (QIS), the working group released a near-final proposal in February 2013 for another round of consultation soliciting feedback on a number of specific issues. The final report is due later in 2013.

Work on shadow banking and non-bank G-SIFIs

Regulators focused on shadow banking taking into account the possibility of bank-like risks to financial stability during the most recent financial crisis.

In response to a request from the G20 in November 2010, the FSB identified five specific areas² in which regulatory reform was needed to mitigate the potential systemic risks associated with shadow banking.

² Those five areas are, (i) interaction of banks with shadow banks, (ii) money market funds, (iii) other shadow banking entities, (iv) securitization, and (v) securities lending and repos

Among those five areas, IOSCO completed work on money market funds (MMFs) and securitization. IOSCO issued final policy recommendations for MMFs in October 2012, and for securitization in November 2012.

The G20 also requested that the FSB develop, in consultation with IOSCO, methodologies for the identification of non-bank, non-insurance global systemically important financial institutions (non-bank G-SIFIs). IOSCO has made significant contributions to the FSB work on SIFIs during the past year in this respect.

Other G20/FSB-related work

Without entering into detail, IOSCO proceeded to work on other various subjects related to the G20/FSB agenda during the past year. For example, IOSCO continued work to promote market integrity and efficiency, and mitigate the risks posed to the financial system by the latest technological developments, including high-frequency trading (HFT). A consultation report was issued in March 2013 on *Regulatory issues raised by changes in market structure*. Another was published in April 2013 on *Technological challenges to effective market surveillance issues and regulatory tools*.

The G20 also asked IOSCO to continue work on issues related to commodity derivatives markets. One request was for IOSCO to prepare recommendations to improve the function and oversight of oil price reporting agencies (PRAs). IOSCO published a report in October 2012 that detailed a set of recommended practices for PRAs aimed at promoting the quality and integrity of oil price assessments. Again, in response to a request from the G20, IOSCO published in the same month a survey on the implementation of IOSCO principles on the regulation and supervision of commodity derivatives markets. The survey indicated that a majority of respondents were broadly compliant with those principles.

Also important was IOSCO's work during the past year on financial benchmarks used as references in financial markets world-wide. In light of the significant issues raised by investigations and enforcement actions regarding attempted manipulation of financial benchmarks such as LIBOR, IOSCO worked in coordination with other international organizations to develop globally consistent policy guidance and principles for financial benchmarks and related activities. Restoring confidence in widely used financial benchmarks is a matter of urgency. IOSCO is expected to complete a final report on benchmarks in mid-2013.

Other important IOSCO work

Strengthening IOSCO's organizational structure

IOSCO's global membership, now comprising more than 200 members covering 95% of the world's securities markets, gives it the scale and breadth to be a truly global standard-setter for market regulation. The streamlining of IOSCO's structure with the creation of the IOSCO Board has rendered IOSCO more inclusive and efficient. The organization now provides better and timelier services to its membership, and enjoys greater visibility and engagement with the global stakeholder community. Work is ongoing to establish the IOSCO Foundation. Once established, the Foundation is expected to enhance capacity-building activities, particularly for emerging market member jurisdictions.

Cross-border cooperation in enforcement

As financial markets become increasingly globalized, the enforcement of market regulations requires greater cross-border cooperation, information-sharing and coordination of regulatory action. The IOSCO Multilateral Memorandum of Understanding (MMOU) has become an essential tool for international enforcement cooperation and information sharing. The number of signatories to the IOSCO MMOU is now 95, and is expected to grow. During the past year, IOSCO has provided technical assistance to those members who are striving to become signatories.

Conclusion

The above is only a quick overview of the significant achievements of IOSCO during the past year, and does not do full justice to all the hard work accomplished by members and the Secretariat during this period. Under the excellent leadership of new Board Chair Greg Medcraft, IOSCO is on track to achieve much more in the coming year as the primary global standard-setter in the area of financial market regulation.





Report from the Chair of the Emerging Markets Committee (To be renamed the Growth and Emerging Markets Committee)

Vedat Akgiray

- > Vice Chair of the IOSCO Board
- > Chair of the Emerging Markets Committee

The activities of the Emerging Markets Committee (EMC) over the past 12 months can be broken down into the following areas: Issues related to the Financial Stability Board (FSB); IOSCO's new Strategic Direction; the new IOSCO Foundation; and the work of the EMC Task Forces. All these activities highlight the growing role of the EMC within IOSCO.

FSB Related Issues

Published in October 2011, the joint report of the FSB, the International Monetary Fund (IMF) and the World Bank on *Financial Stability Issues of Particular Interest to Emerging Market and Developing Economies* (EMDE Report) focused on five financial stability issues in EMDEs. It made recommendations on policy measures for national authorities in EMDEs to address these issues and on ways that the international community could support these economies in their efforts. The FSB asked IOSCO to report back on progress made to implement these recommendations by end-2012.

At its meeting in February 2012, the then Emerging Markets Committee Advisory Board (the functions of the EMCAB were subsumed by the Board in May 2012) agreed to undertake a mapping exercise of the report's recommendations regarding securities markets. It also decided to analyze the progress made by emerging markets, in order to provide feedback to the FSB. In this context, the EMC used the Chair's Fifth Annual Survey as an instrument to gather data from EMC members.

FSB Study on the Effect of Regulatory Reforms on EMDEs

Another FSB study was carried out to determine the extent to which the agreed regulatory reforms may

have unintended consequences for the EMDEs. To do this, the FSB constituted the EMDE Review Group and circulated a questionnaire among the EMDEs in March 2012. The FSB study on the effect of the regulatory reforms on EMDEs was published in June 2012.

The G20 Leaders welcomed the study in their Los Cabos Summit Declaration (June 2012), and called on the FSB to continue monitoring, analyzing and reporting on the matter. To this end, the FSB Secretariat prepared a Draft Proposal on *Follow-up to the study on the effects of agreed reforms on EMDEs* in September 2012, which sought comments from IOSCO. The IOSCO General Secretariat provided the FSB with a response in October.

New IOSCO Strategic Direction

The EMC constitutes about 75% of IOSCO's ordinary membership and its members represent the world's fastest growing economies (10 out of 20 of the G-20 members). Given the EMC's growing weight within the organization, it actively contributed to IOSCO's work through my participation, as EMC Chair, in the Executive Committee and Technical Committee until May 2012 and then, subsequently, in the IOSCO Board.

In particular, our involvement focused on the development of the new IOSCO Strategic Direction, the future role of the EMC, the fair representation of the EMC in the IOSCO Board and the new IOSCO structure.





As part of the structural reorganization of IOSCO that took place in May 2012, the policy and standard-setting work of the IOSCO Standing Committees and of the EMC Working Groups were merged to create the new IOSCO Policy Committees. Between 2012 and 2014, the Vice Chair of the EMC was to be appointed from among its members who had been Working Group Chairs before the merger. If the Working Group had two co-Chairs, one of them would become EMC Vice Chair.

IOSCO Foundation

During its meeting at the IOSCO Annual Conference in Cape Town in April 2011, the Presidents Committee decided to establish the IOSCO Foundation, in order to raise and apply additional funds to certain key IOSCO activities. Specifically, the IOSCO Foundation is intended to support and finance IOSCO's initiatives in Technical Assistance, Education and Training, and Research (henceforth defined as the *Three Pillar activities*). Increased funding of these activities will benefit IOSCO members, particularly those from emerging markets, and contribute to the development of safe and robust global securities markets.

The EMC members strongly supported the establishment of the proposed IOSCO Foundation at the EMC meeting in Santiago, Chile in November 2012. However, given the importance of this project and its future implications, work to establish the Foundation continues.

EMC Task Forces

EMC Chair's Task Force

The EMC Chair's Task Force (whose membership is open to all EMC members) aims to identify relevant regulatory issues and provide recommendations for future

work. To achieve this goal, the task force has circulated a survey among EMC jurisdictions every year since 2008. The results of the fifth survey were presented on 20 November 2012 during the EMC Plenary Meeting.

EMC Task Force on the Future Role of the EMC

IOSCO decided the EMC would continue to operate during the 2012-2014 transitional period in which IOSCO's organizational structure is to be streamlined and a permanent Board to be established, pursuant to the IOSCO strategic direction. A Task Force was constituted to design the post-2014 role and function of the EMC. Its mandate calls for the Task Force to guide the EMC towards a decision on its future structure, and its role and functions within the organization, while seeking to enhance the inclusiveness of the EMC in all aspects of IOSCO's work.

With these aims, the Task Force circulated a survey and presented a report in the November 2012 EMC meeting.

EMC Task Force on the Financing of SMEs through the Capital Markets

Small and Medium Size Enterprises (SMEs) are important actors in economic growth and transformation, creating positive value for the economy and contributing to sustainable and balanced economic growth, employment and social stability. However, their access to finance is limited, posing a challenge for policy makers. SMEs rarely raise financing through the capital markets due to certain obstacles affecting both the investor and the issuer side. A major challenge for regulators is to ensure adequate investor protection while establishing an effective regulatory framework that promotes SME financing.

To meet this challenge, the EMC set up a Task Force in May 2012 on *Financing of SMEs through the Capital Markets*. The main goal of the Task Force is to highlight regulatory and other challenges facing the SMEs in small-business capital formation, explore the ways in which securities regulators can help to overcome those challenges and develop recommendations.

The mandate was approved in the IOSCO Annual Conference in May 2012. After introducing revisions based on comments from Task Force members, a survey was circulated among IOSCO's ordinary members in August 2012. Responses were received until end 2012. The report will be submitted for approval to the EMC in September 2013.

EMC Workshops

EMC members participated actively in the two workshops held during the November 2012 EMC meeting in Santiago. The topics of the workshops were the development of derivatives markets in emerging markets and development of the surveillance capacity of securities regulators. Additionally, the five public panels at the conference focused on the subjects of corporate governance, SME financing, adoption of International Financial Reporting Standards (IFRS), identification of the major securities markets in emerging markets, and issues and challenges of the regional integration of capital markets. Furthermore, the EMC held an interactive and free-flow session on emerging risks, barriers to development and key regulatory priorities in the EMC securities markets.

Other Relevant Issues

After May 2012 I started to represent the EMC in the Monitoring Board of the IFRS Foundation. The Monitoring Board's main responsibilities are to ensure that the Trustees of the IFRS Foundation continue to discharge their duties as defined by the IFRS Foundation Constitution, and to approve the appointment or reappointment of Trustees.

Additionally, I have also participated in the Decision Making Group of the Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (MMoU), which decides on the applications to become a MMoU signatory.

Progress made by the EMC members in meeting the requirements of the IOSCO MMoU

In 2010, IOSCO approved a resolution to ensure that all IOSCO member jurisdictions became sig-

natories to the MMoU by January 2013. Fifty-four EMC members had signed the MMoU by the end of 2012. Another 24 EMC jurisdictions were listed on Appendix B, the list of members who lack the legal authority to fully comply with the MMoU provisions, but are committed to becoming signatories. The 1 January 2013 deadline has passed, and I am greatly impressed by the commitment and the efforts of the EMC members to meet this important goal.

Training programs organized for emerging markets members

The following is a list of seminars and training programs organized for EMC members between May 2012 and April 2013. A more detailed description of these programs can be found in this report's Chapter on IOSCO Education and Training Programs.

- > The fourth Joint Investor Education Conference of the International Forum for Investor Education (IFIE) and IOSCO, 20-22 May 2012 in Seoul
- > The IFSB-IOSCO Roundtable on *Disclosure Requirements for Islamic Capital Market Products*, 18 September 2012 in Kuala Lumpur, Malaysia. Hosted by the Securities Commission of Malaysia on the margins of the Global Islamic Finance Forum 2012, the roundtable formed part of a joint project undertaken by the Islamic Financial Services Board (IFSB) and IOSCO to explore and study the implications of using conventional minimum disclosure requirements for Islamic capital market products.
- > The annual IOSCO Seminar Training Program (STP) on *Corporate Governance Issues Related to Securities Firms and Sanctions for Market Abuse*, 23-26 October 2012 in Madrid, Spain.
- > The 5th edition of the IOSCO SROCC Training Seminar on IOSCO Principles relating to Regulators, Secondary Markets and Market Intermediaries, 7 - 9 November 2012 in Istanbul.
- > The annual FSI/IOSCO Seminar on Trading Book Issues and Market Infrastructure, 28-30 November 2012 in Basel, Switzerland.
- > The 2012 Mobile Seminar Training Program (STP) on *Investor Education, Corporate Governance and Sanctions for Market Abuse, and Islamic Finance*, 10-12 December 2012 in Dubai.



Report from the Chair of the SRO Consultative Committee (To be renamed the Affiliate Members Consultative Committee)

José Carlos Doherty

- > Chair of the SRO Consultative Committee
Chief Executive Officer,
The Brazilian Association of Financial and Capital Markets Institutions (ANBIMA)

The SRO Consultative Committee (SROCC) offers an important framework for members who are self-regulatory organizations (SROs) to share their experiences and expertise, and contribute to the on-going debate and standard-setting functions at IOSCO.

SROs promote orderly and sound capital markets through the monitoring of markets and systems, on-site inspections, and partnerships for enhancing rules, requirements and risk-based supervision. Recent changes to IOSCO's organizational structure gave the SROCC a major role in the policy work of the IOSCO committees. These changes were an explicit acknowledgment of the growing relevance of SROs.

The SROCC comprises 75 members representing SROs and international entities with an appropriate interest in securities regulation. During the period between the Annual Conference in Beijing in 2012 and the IOSCO Board meeting in Sydney in March 2013, the SROCC welcomed six new members.

A recent survey of SROCC membership confirmed its diversity: it includes exchanges, regulatory bodies, and entities with regulatory responsibilities, market infrastructures, international non-governmental entities, and investor protection funds. Despite the differences among SROCC members regarding the scope of their work and terms of reference, members actively cooperate with each other and support IOSCO work streams. They provide input and share expertise and experiences stemming from their proximity to market participants.

The SROCC participates in IOSCO's on-going work. It also holds two regular semi-annual meetings, one of which takes place at the IOSCO Annual Conference. To support its activities, the SROCC has two working groups: the *Ahead of the Curve WG* and the *Regulatory Staff Training WG*.

SROCC's recent activities and specific issues faced by its members

At the SROCC Meeting held at the IOSCO Annual Conference in Beijing in May 2012, I was elected chair of the SROCC for a two-year term. After the election in Beijing, the SROCC held its mid-year meeting in Istanbul in November 2012, and participated in two IOSCO industry roundtable discussions. The fifth training seminar for regulators and SROs was held in tandem with the Istanbul meeting. A letter was sent to the IOSCO Board summarizing points of the meeting and outlining the initial steps to develop a joint agenda.

During the period in question the SROCC carried out several activities that fell into the following categories:

Representation in the IOSCO Committees

Recent changes to IOSCO's organizational structure implied an extended participation of SROCC members in the work of the policy committees. This change was an acknowledgement of the role SROs play to protect investors and market integrity, and their contribution to



the regulatory structure. After IOSCO's annual meeting in Beijing, the following SROCC representatives began to participate as members and contribute with work, expertise and views on the critical regulatory issues addressed by the IOSCO committees mentioned below:

- > The Investment Industry Regulatory Organization of Canada (IIROC) with Committee 2 (Secondary Markets);
- > The Financial Industry Regulatory Authority (FINRA) with Committee 3 (Market Intermediaries);
- > The Brazilian Financial and Capital Markets Association (ANBIMA) with Committee 5 (Investment Management);
- > The National Futures Association (NFA) with Committee 7 (Commodity Futures Markets).

SROCC agreed that at each meeting its representatives would update members on the current work streams and agendas of the IOSCO Policy Committees and ask them for further contributions to the work of each committee. The first joint report of the members of the different committees took place at the following SROCC mid-year meeting on 6 November 2012 in Istanbul, Turkey.

SROCC members survey

Before the 2012 mid-year meeting in Istanbul, a survey among SROCC members was conducted in order to gain a clearer idea of the membership's composition and to draft a work plan more supportive of IOSCO in-

terests, and leveraging on members' diverse expertise, experience and interests

The survey was formulated based on information about members, the type of institution, the main self-regulatory functions performed, and on the IOSCO Principles' new assessment methodology.

The survey identified members' expertise and their main interests in the IOSCO agenda. Among the several IOSCO work streams, SROCC members indicated a greater interest in the following: impact of technology on markets and high frequency trading, market infrastructure, insider trading, OTC derivatives, suitability and distribution of complex products. This information proved useful for organizing the subsequent mid-year meeting.

Ahead of the Curve Working Group

Changing market conditions, widely-dispersed complex products and increasingly complex business models used by financial intermediaries increase the need for regulators to have broader competencies and greater resources. SROs have strengths that may meet these needs, such as proximity to the market, expertise on market operations and practices that enable them to be flexible and respond quickly. In this regard, the *Ahead of the Curve WG* is meant to detect potential regulatory concerns at an early stage, exchange information on emerging risks and help SROs to tackle problems as they arise.

While preparing the *2012 Ahead of the Curve Panel*, SROCC approved a change in the leadership of the working group, from the Financial Industry Regulatory



Authority of the US (FINRA), which was already coordinating the Regulatory Staff Training Working Group, to the Japan Securities Dealers Association (JSDA). The invitation for the JSDA to assume the presidency of the *Ahead of the Curve WG* was recognition of its commitment and distinguished leadership at the SROCC during the previous four years. The association kindly accepted the presidency.

During the panel of the *Ahead of the Curve WG* at the Istanbul Meeting of November 2012, the committee held discussions on several issues concerning SROs, including:

- > enhancement of customer protection, including recent initiatives adopted to safeguard customer funds after investment firms failures;
- > issues surrounding public offers, like misappropriation of information and sanctions regarding insider trading;
- > alerts on financial products such as real estate investment trusts, distribution of complex products and mini-manipulations in the option markets.

Training regulatory staff

Training regulatory staff is one of the pillars of SROCC work. Since 2008, the *SROCC Staff Training WG* has organized five training programs, which focused on rule making, supervision and enforcement guidelines from the IOSCO Principles and their assessment methodology. Those training seminars were attended by over 400 representatives from more than 80 reg-

ulators from 57 different jurisdictions around the world.

The sixth edition of the seminar was held in Istanbul in November 2012. The program included eight different panels regarding IOSCO principles for regulators, secondary markets and intermediaries. As in past seminars, discussions were held on IOSCO Objectives and Principles and the feedback received from participants was very rewarding.

Industry roundtable

The SROCC was invited to participate in two IOSCO industry roundtables, in Madrid in October 2012 and in Sydney in March 2013. The SROCC had the opportunity to discuss the appropriate focus of regulatory reforms in relation to the impact of technology on markets, distribution of investment products and effectiveness of the regulatory reforms.

2012 Mid-year Meeting and Communication with IOSCO

The 2012 SROCC mid-year meeting was hosted by The Association of Capital Market Intermediary Institutions of Turkey (TSPAKB). A detailed discussion on joint work plans and on the future structure of the SROCC was conducted, with the participation of the then Vice Chair of the IOSCO Board, Vedat Akgiray, and Secretary General David Wright and Deputy Secretary General Tajinder Singh of the IOSCO General Secretariat. A panel was held on *Technology Impacts on Markets*, along with other activities.

After the mid-year meeting in Istanbul, the SROCC sent a letter to the IOSCO Board providing a summary of the substantive issues discussed at the meeting and



suggesting some regulatory issues that members identified as possible future work streams for IOSCO.

Future Activities

Regarding the committee's next activities, at the time of writing this report, the SROCC was planning to hold its mid-year meeting and training seminar in Toronto, Canada in May 2013, and its annual meeting during the IOSCO Annual Conference in Luxembourg in September 2013. In Toronto, a panel on Risk of Cybercrime in Securities Markets was expected to be held and a training seminar on IOSCO Principles for supervision of intermediaries and for enforcement.

The SROCC also seeks to identify the specific issues to which it can proactively contribute with members' expertise, discussion panels, training and documented work. Topics regarding technological issues and customer protection were both included in the 2013 meeting and training agendas. In its letter to the IOSCO Board, the SROCC suggested new mandates on how regulators should oversee the use of social media, the use of automated advice, the verification of rumors and the follow up on public announcements and events after those announcements. Other possible work streams include SME financing and crowd funding. The aim would be to identify the challenges posed by these opportunities, both of which are responses to the shifting conditions of global financial markets.

Challenges ahead for the SROCC

In the current context of rapidly changing global financial markets, the front-line regulatory expertise of

SROs is becoming increasingly important and demanding. The SROCC's recent work has underscored the important role it plays in strengthening investor protection, market integrity and financial stability—a role already recognized by IOSCO.

As a result, several challenges lie ahead for the SROCC as it continues its work with IOSCO, namely:

- > Identifying and analyzing key and emerging risks in the global financial system;
- > Contributing proactively to IOSCO's work, assisting with the implementation of IOSCO principles and the development of sound and secure global securities markets;
- > Ensuring proper coordination among the main entities in charge of investor education and training, avoiding overlap and establishing a productive agenda for enhancement of investor education;
- > Improving its coordination with other committees within the IOSCO ambit and aligning its structure to better support the enhanced roles played by IOSCO and SROs on the international regulatory scene.

Carrying out further work on these and other subjects specific to the SROCC should be a major challenge in the coming years. The SROCC is deeply committed to helping IOSCO fulfill its objectives and improve international standards.



Report from the Secretary General

David Wright
> Secretary General

I took up my duties as Secretary General of IOSCO on 15 March 2012. From then until now we have been working very hard to try to strengthen IOSCO, to ensure we play a major role shaping the process of global financial repair and to strengthen our medium term capacity to provide sustained education and training and technical assistance of real quality to our emerging market members by developing an IOSCO Foundation.

Interestingly, in 2012, the global securities regulatory community became much more aware of the profound switch that is underway, from bank-centric financial models in many countries towards more market-based financing in the future. The Basel III agreement has ramped up capital requirements, with add-ons for G-SIFIs (Global systemically important financial institutions); bank leverage is set to decline; public finances in many parts of the world are caught in a tightening corset; private pension provision is set to increase exponentially; all of which means these *financing gaps* will have to be filled by market instruments of one form or another. Speaking to IOSCO members from all over the world, I am struck by the convergent view that strong local securities market development is essential for long term economic prosperity.

All this means that the relative role of securities regulators and the role of IOSCO becomes even more important going forward.

In response, IOSCO is seeking: to develop standards of real quality and depth, with sufficient granularity; to monitor implementation rigorously; to help all those who need it with appropriate technical assistance, education and training. Put another way, this is an extraordinary opportunity for IOSCO to deepen and widen global securities markets on the basis of optimal IOSCO standards.

Another important development that began in 2012 is the beginning of a serious collective effort by IOSCO to identify and understand better emerging securities market risks. This has now become almost de rigeur in all IOSCO's main committees – from the Board, to the Emerging Markets Committee, the Self-Regulatory Organizations Consultative Committee and the four Regional Committees, as well as some policy committees. The more we are able to link up our committee structures with effective two-way exchanges of information, the stronger we will become as an organization. It also seems to me that IOSCO will be most influential in helping shape global standard setting when we are ahead of the curve – thinking forward, many years forward, not backwards. A good example is the rapid and effective way we tackled the massive LIBOR scandal by setting up quickly a Board-level Task Force, ably led by Martin Wheatley (UK FCA) and Gary Gensler (US CFTC).

It is difficult to estimate how much of IOSCO's policy time, or the Secretariat's, is devoted to ensuring we contribute effectively to the FSB and G20 work streams. Perhaps 50 per cent or more? I have been very impressed by the seriousness with which we, as an organization, have tackled these tasks – none of them easy – and the real efforts we have made to cooperate and build consensus. In 2012 our contributions to the work on OTC derivatives reform, market infra-



structures, shadow banking, money market funds, etc., have been of considerable merit and were endorsed at the G20 level. But we should avoid the impression that the job has been completed. Much remains to be done; for example, ensuring that the emerging resolution frameworks can work on a cross-border basis or that the financial industry is changing its culture and behavior, sustainably, by putting the interests of customers first, not last. It is very significant and important for IOSCO and the public that we are working on the parameters for determining deterrent sanctions.

At Board level we have advanced on some difficult issues, such as membership and voting rights, which now go to the Presidents Committee for endorsement. The MMoU on cooperation and the exchange of information is moving from strength to strength – with 95 signatories at the time of writing. Encouragingly, those who are not yet in the fold are clamoring to get *in* to be compliant. With over 2000 exchanges of information for enforcement cases per year, this instrument is proving its worth. An interesting question now on the table is could, or should, the scope of the MMOU be extended?

As we go forward together, I hope IOSCO will continuously test itself against best international practice and

ask itself: “Where do we want to be in five, ten and 20 years’ time? What are our common interests? What is the level of our ambition for a world that is integrating at a vertiginous pace? How can we strengthen our co-operation and ensure that our standards are effectively applied?”

Let me conclude with expressing my gratitude to my exceptional deputy Tajinder Singh – and to all the Secretariat staff who have worked extremely hard and diligently throughout the year. There are too few of them - IOSCO is still under resourced compared to our sister organizations, with a budget frozen in nominal terms.

Finally, I would like to express my gratitude to, and admiration of, outgoing IOSCO Board Chair Masamichi Kono, for his invaluable guidance and leadership during my first year at IOSCO. Mr. Kono steered us skillfully through our structural reorganization. We are now on the way to becoming a stronger organization as a result. I look forward to working with incoming IOSCO Board Chair Greg Medcraft to build on Mr. Kono’s legacy and ensure IOSCO a leading role in shaping the global financial repair agenda.

Activities of IOSCO's Policy Committees in the Year

May 2013 marked the first anniversary of the creation of the IOSCO Board. Under the aegis of the new Board, IOSCO made important contributions to the global regulatory reform agenda. Much of IOSCO's work on securities markets regulation was conducted in response to mandates from the G20 leaders and the Financial Stability Board. Other policy mandates were undertaken at the initiative of its members. In all its work, IOSCO's objective is to protect investors, maintain fair, efficient and transparent markets, and to identify and mitigate systemic risks.

The IOSCO Board was constituted at the 2012 Annual Meeting in Beijing. It subsumes the activities of the IOSCO Technical Committee, the Executive Committee and the Emerging Markets Committee Advisory Board. By commissioning a single integrated body to take on the governance, standard-setting and development functions of the organization, IOSCO has sought to become more effective at achieving its objectives and conveying its messages. A streamlined governance structure also makes the organization more efficient and inclusive.

The IOSCO Board reviews the regulatory issues facing international securities markets and coordinates practical responses to these concerns. The work is carried out by seven IOSCO committees, each one working in one of the following policy areas, under the guidance of the Board:

- > **Issuer accounting, auditing and disclosure;**
- > **Regulation of Secondary Markets;**
- > **Regulation of Market Intermediaries;**
- > **Enforcement and Exchange of Information;**
- > **Investment Management; and**
- > **Credit Rating Agencies**
- > **Commodities Derivatives Markets**

The Board also oversees the activities of the Emerging Markets Committee. The EMC seeks to develop and improve the efficiency of emerging securities markets through the introduction of minimum standards, the provision of training programs for members' regulatory staff and facilitating the exchange of information, technology and expertise. In May 2012,

IOSCO merged the policy and standard-setting work of the EMC Working Groups and the former Technical Committee Standing Committees, to create the seven policy committees. They share the common IOSCO objectives.

The move enhanced the effectiveness of the committees and gave emerging market members a bigger say in IOSCO's policy work, underscoring the growing importance of the emerging market membership within the organization.

In addition to the policy committees, several task forces were entrusted in this period with examining relevant developments in the financial markets. They included:

- > Board Level Task Force on Financial Benchmarks
- > Task Force on OTC Derivatives Regulation
- > Task Force on Unregulated Markets and Products (TFUMP)
- > Task Force on Unregulated Financial Entities (TFUFE)

POLICY COMMITTEES WORK PROGRAM

Committee on Issuer Accounting, Audit and Disclosure – Committee 1

Chair: Julie A. Erhardt (US SEC)

Committee 1 is devoted to improving the development of accounting and auditing standards, and

otherwise enhancing the quality and transparency of the information that investors receive from listed companies, including financial institutions. IOSCO considers the accuracy, integrity and comparability of issuer disclosure to be essential for maintaining investor confidence and facilitating a stable international financial system.

Accounting

Committee 1 monitors and supports the work of the international accounting standard-setting bodies. This involves monitoring the projects undertaken by the International Financial Reporting Standards Foundation (IFRS Foundation), observing the IFRS Interpretations Committee (IFRIC), and participating in the IFRS Advisory Council and other IFRS Advisory Groups. The IFRS Foundation is the legal entity under which the International Accounting Standards Board (IASB) operates.

Committee 1 contributes to the standard-setting work of the IASB through its involvement in the IASB work streams and its comment letters on the IASB's proposals. Its aim is to provide the IASB with input that reflects the perspective of securities regulators. IOSCO also is a member of the Monitoring Board (MB) that oversees the IFRS Foundation. After publication in February 2012 of its report on the review of the IFRS Foundation's governance, the MB began to develop an evaluation process and measures to assess current members and expand the MB membership. This process is expected to be completed in 2013.

Committee 1 also organizes interactions about IFRS implementation matters, both among the IOSCO members and between the IOSCO members and the IASB staff. These arrangements foster the sharing of information about the nature and possible resolutions of IFRS matters encountered in practice. One such matter that has received particular attention during the past year is the issuer practice of reporting *non-GAAP* measures of performance.

Auditing

IOSCO believes there is an important role to be played by a set of international auditing standards in contributing to global financial reporting and supporting investor confidence and decision making. To that end, Committee 1 monitors the activities of two of the International Federation of Accountant's standard-setting bodies: the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA). It also provides input via the IOSCO members who participate in the respective Consultative Advisory Groups (CAGs) of the two standard-setting boards.

In response to several high-profile financial reporting problems at the turn of the century, IOSCO became a founding member of the Monitoring Group (MG) of regulatory organizations that created the Public Interest Oversight Board (PIOB). The MG and the PIOB were charged with overseeing the implementation of the 2003 reform of the standard-setting and compliance activities of the International Federation of Accountants.

In March 2012, the PIOB conducted a three-month consultation on the *PIOB Work Program 2012 and Beyond*. The PIOB paper was issued in conjunction with the MG consultation on *The Governance of the MG, the PIOB, the Standard Setting Boards, and Compliance Advisory Panel Operating under the Auspices of IFAC*. The responses to the MG consultation paper highlighted the need to explain better to stakeholders the essential objectives, roles and responsibilities of the standard setters, and how the current governance structure seeks to support them.

In March 2012, the Financial Stability Board called on IOSCO to report on certain matters related to external audits of issuer financial statements. Committee 1 has worked on the following two mandates:

- > *Global Standard-Setting Work on Auditor Communications*: This mandate deals with the information that auditors include in their reports on financial statements.
- > *Auditor Reporting to Prudential Regulators*: This focuses on the information on financial institutions that external auditors provide to prudential supervisors and regulators.

Experiences with IOSCO Audit Firm Contingency Planning Paper: This mandate deals with matters associated with a possible disruption in the delivery of audit services to public companies.

Further to its work aimed at improving audit quality, Committee 1 has advanced with work arising from the previous IOSCO consultation paper on the transparency of the reports that audit firms provide about themselves to investors.

Non-Financial Statement Disclosure

In November 2012, Committee 1 issued the final *Principles for Ongoing Disclosure for Asset Backed Securities*, which provide guidance to securities regulators who are developing or reviewing their regulatory regimes for ongoing disclosure for asset-backed securities. The objective of these principles is to enhance investor protection by clarifying the issues that regulators should consider when working on these disclosure regimes.



Committee on Regulation of Secondary Markets - C2

Chair: Susanne Bergsträsser (Germany, BaFin)

Committee 2 is concerned with recent developments in the structure of global capital markets and financial market infrastructure, and how they are affected by, and contributed to, the financial crisis.

During the period of this annual report, Committee 2 responded to a 2010 request from the G20 for IOSCO to “develop recommendations to promote markets’ integrity and efficiency to mitigate the risks posed to the financial system by the latest technological developments.”

To meet that request, Committee 2 worked on the following two mandates:

The Development of Tools Needed to Address the Technological Challenges to Effective Market Surveillance

In April 2013, Committee 2 issued the final report on *Technological Challenges to Effective Market Surveillance: Issues and Regulatory Tools*, which provides an overview of current market surveillance regimes and identifies the main challenges that technological developments pose to these regimes. The report makes final recommendations to help market authorities develop the regulatory tools for addressing these challenges, particularly with respect to:

- > improving surveillance capabilities on a cross-market and cross-asset basis; and
- > enhancing the usefulness of data collected for surveillance purposes.



This report recommends new regulatory tools for market authorities such as audit trail or surveillance data that permit the reconstruction of trades and order books; a single reporting point for transactions within a jurisdiction; and unique entity identifiers.

Issues Raised by Changes in Market Structure

In March 2013, Committee 2 published its consultation paper on *Regulatory Issues Raised by Changes in Market Structure*, which identifies possible outstanding issues and risks posed by existing or developing market structures. It also proposes recommendations to address these potential risks.

To prepare the report, Committee 2 conducted an analysis of how current market structures have evolved in members' jurisdictions. The aim was to gather

evidence and views for developing recommendations that promote market liquidity and efficiency, price transparency, and investors' execution quality in a fragmented environment. The report proposes possible policy options and regulatory tools to cope with the potential drawbacks arising from market fragmentation.

The report concludes that securities regulators bear the responsibility for striking an appropriate balance between a market structure that promotes competition among markets, and one that minimizes the potentially adverse effects of fragmentation on market integrity and efficiency, price formation, and best execution of investor orders.

Other mandates: Trading Fee Models and their Impact on Trading Behavior.

During the year, Committee 2 gathered information from trading venues and regulators on the different frameworks for regulating trading fees, as well as the different fee models and fees charged by trading venues, and their potential impact on trading behavior. The committee is evaluating its findings.

Currently, Committee 2 is considering further mandates in the area of electronic trading, such as the recent events during which *technical* problems caused trading interruptions and major losses (e.g., the *Knight Capital* case).

Committee on Regulation of Market Intermediaries – C3

Chair: Stephen Po (Hong Kong SFC)

The recent financial crisis raised serious concerns that the growing complexity of financial products made the associated investment risks less apparent to customers. In particular, the collapse of Lehman Brothers in September 2008 highlighted the extent to which intermediaries failed to assess the suitability of structured investment products for retail and non-retail customers.

To help address this problem, Committee 3 in January 2013 issued a final report on *Suitability Requirements with respect to the Distribution of Complex Financial Products*, which sets out principles regarding the distribution by intermediaries of complex financial products to retail and non-retail customers.

The report forms part of IOSCO's ongoing drive to promote customer protection. It introduces nine principles covering areas related to the distribution of complex financial products by intermediaries, including the classification of customers, disclosure requirements, and compliance function and internal suitability policies and procedures.

Systemically Important Non-Bank Financial Entities

The G20 declaration after the Cannes summit in November 2011 asked the FSB, in consultation with IOSCO, to prepare methodologies to identify non-bank global systemically important financial institutions (SIFI) in the securities sector. During the year covered by this annual report, IOSCO had two work streams responding to the G20 mandate: Committee 3 was charged with listing a set of indicators to identify non-bank systemically important market intermediaries in the securities sector; Committee 5 on Investment Management worked in conjunction with the Task Force on Unregulated Financial Entities (TFUE) on general guidelines for identifying systemically important investment funds, including hedge funds.

The IOSCO working groups prepared a draft joint report that reflects the need for a consistent approach for all G-SIFIs similar to that adopted in the banking and insurance sectors. It broadly considers the same impact factors (size, interconnectedness, complexity, substitutability and global activities) but tailors the indicators to the specificities of each sector.

FSB Key Attributes of Effective Resolution Regimes for Financial Institutions

In February 2013, the FSB asked IOSCO and other standard-setting bodies to provide feedback on its draft assessment methodology for *the FSB Key Attributes of Effective Resolution Regimes for Financial Institutions*. In response, Committee 3 solicited comments from its members on the draft assessment methodology from a market intermediary perspective. These comments have informed the review of the methodology that the FSB Resolution Steering Group is conducting.

Reducing reliance on CRAs

Committee 3 has been contributing to the FSB roadmap on reducing reliance on the ratings of credit rating agencies since 2010. It is entrusted with determining how and where market intermediaries can reduce reliance on CRA ratings.

Protection of Client Assets

The demise of Lehman Brothers also highlighted the importance of client asset protection regimes. Its collapse spurred regulators to improve the supervision of intermediaries holding client assets. In particular they examined how to transfer or return client assets in default, resolution or insolvency scenarios, on a cross-border basis.

In response to a request from the FSB at its plenary meeting in May 2012, Committee 3 published a consultation report, *Recommendations Regarding the Protection of Client Assets*. The 2013 report provides guidance to regulators on how to enhance their supervision of intermediaries holding client assets by clarifying the roles of the intermediary and the regulator in protecting those assets.

At the time of publication of this annual report, Committee 3 was aiming to submit its final report and a feedback statement on the comments received, at the IOSCO Board meeting in June 2013.

Other mandates

Finally, Committee 3 is considering two new mandates relating to social media and to the automation of financial advice.

Committee on Enforcement and Exchange of Information – C4

Chair: Georgina Philippou (UK FCA)

The IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (MMoU) Screening Group

Co-Chairs: Georgina Philippou (UK FCA) and Jean-François Fortin (Québec, AMF)

IOSCO operates on the premise that enforcement cooperation among regulators is essential to achieve effective global regulation and to strengthen securities markets around the globe. To that end, Committee 4 and the Screening Group seek to implement global enforcement cooperation under the IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information, the international standard for cooperation and information exchange.

Securities regulators around the world use the MMoU to combat the cross-border fraud and misconduct that can weaken global markets and undermine investor confidence. The MMoU sets out specific requirements for the exchange of information, ensuring that no domestic banking secrecy, blocking laws or regulations prevent the exchange of enforcement-related information among securities regulators

Signatories to the IOSCO MMoU

Committee 4 works with the MMoU Screening Group and the General Secretariat to help IOSCO member jurisdictions meet the requirements for becoming signatories to the MMoU. In 2010, IOSCO asked all its members to become signatories by 1 January 2013.

Of the 124 eligible members, 95 are signatories to the MMoU, representing approximately 95% of global securities markets. Of the 29 members who are not yet signatories, 24 are listed on Appendix B— the list of members who have formally expressed their commitment to seek the legislative and administrative changes necessary for achieving MMoU compliance.

In February 2013, IOSCO published a list of the members who had yet to sign the MMoU.

Later it agreed to take tougher measures to encourage compliance with the MMoU by non-signatories.

At the same time, IOSCO reiterated its commitment to provide technical assistance and political support to those non-signatories that require it in order to sign the MMoU.

The increase in the number of signatories over the last decade has led to a sharp increase in cross-border cooperation, enabling regulators to investigate a growing number of insider traders, fraudsters and other offenders. In 2006, a total of 520 requests for assistance were made pursuant to the MMoU; the annual figure increased to 1,600 in 2010, 2,090 in 2011 and 2,606 in 2012.

In 2012, a study by a Committee 4 working group concluded the MMoU was relevant to members investigating misconduct related to financial market benchmarks, such as Libor. Consequently, Committee 4 is contributing to the work of the Board-level Task Force created in September 2012 to identify relevant benchmark-related policy issues and develop global policy guidance and principles of particular relevance to market regulators.

New Mandate of Deterrence Regimes

Recent scandals at some of the world's largest financial institutions have had a profound impact on the world's capital markets. Public confidence in capital markets and the financial system has been seriously eroded. Regulators across the globe have brought concerted action to eradicate and punish flagrant misconduct. However the ability of some regulators to detect and punish such misconduct has not been as robust as others.

In light of the public demand for tougher sanctions to deter this type of market misconduct, the IOSCO Board approved in April 2013 a mandate for Committee 4 to conduct a review of the core elements of a credible deterrence framework for securities regulation, including strategies and good practices. Taking into account the wide divergence in international sanctions regimes, the mandate envisions, where appropriate, the development of a set of founding principles upon which credible deterrence frameworks could be built. Committee 4 is expected to publish the findings of its review in March 2014.

Legislation Forum

In November 2012, Committee 4 launched a Legislation Forum for members. The primary objective is to gather and disseminate examples of legislation, policies and practices of jurisdictions from across the globe that might be useful to other regulators seeking to enhance their enforcement powers. It also is aimed at informing IOSCO members of interesting and novel legislative developments in the area of enforcement.

Committee 4 published in April 2013 an addendum that updates a 2000 IOSCO report







on *Investigating and Prosecuting Market Manipulation*. The 2000 report described the basic concepts underlying market manipulation and the tools used by different jurisdictions to detect, investigate and prosecute market manipulation. The addendum reflects the developments in technology over the past decade that have transformed market structures and influenced the way market manipulation occurs. It also reviews the new methods used by regulators to detect and investigate market manipulation.

Committee on Investment Management - C5

Chair: Natasha Cazenave (France, AMF)

G20 and FSB mandates

Money Market funds

In October 2012, Committee 5 published a final report on *Policy Recommendations for Money Market Funds*. The report formed part of an effort by the G20 and the Financial Stability Board (FSB) to strengthen the oversight and regulation of the shadow banking system. The FSB asked IOSCO to consider potential regulatory reforms of money market funds (MMF), after the September 2008 run on some funds alerted regulators to the systemic relevance of MMFs. Although money market funds are a source of credit and liquidity, their performance in 2008 highlighted their potential to spread or even amplify a crisis.

The IOSCO report proposes recommendations on common standards for the regulation and management of money market funds across jurisdictions. These are formulated around key principles for valuation, liquidity management, use of ratings, disclosure to investors, and repos.

G- SIFIs identification

In collaboration with Committee 3 on Regulation of Market Intermediaries and the Task Force on Unregulated Financial Entities (TFUE), Committee 5 is working on the preparation of a methodology to identify systemically important non-bank financial entities in the securities sector (see Committee 3 above). Committee 5 is working with TFUE to develop a single methodology applicable to all investment funds, including hedge funds; Committee 3 is developing in conjunction to this work the section of the methodology aimed at identifying systemically important market intermediaries.

Reducing reliance on CRA ratings

In a report published October 2010, the FSB recommended that investment managers and institutional investors should not rely on CRA ratings for assessing the creditworthiness of assets. Instead, it said, they should conduct their own due diligence. Two years later, the FSB published a *roadmap* outlining the steps for reducing the reliance on CRAs and strengthening the risk assessment capabilities at financial firms.

As part of this FSB initiative, Committee 5 members conducted two reviews of national CRA regulations in their jurisdictions. The second review in October 2012 indicated that reliance on CRAs had diminished since the first review in March 2011.

Exchange Traded Funds (ETF)

Exchange Traded Funds have attracted significant investment in recent years, drawing the attention of regulators who are concerned about the potential impact of ETFs on investors and the marketplace. The consultation period for the *Principles for the Regulation*

of Exchange Traded Funds ended in June 2012. The final principles, expected to be published in June 2013, address such issues as product labeling, appropriate disclosure and commercial practices for better investor protection, to address regulator's concerns.

During the year Committee 5 continued with its work on Collective Investment Schemes (CIS).

In March 2013, it published the *Final Report on Principles of Liquidity Risk Management for Collective Investment Schemes*. These principles provide high-level guidance for the valuation of CIS and reflect market developments since 1999, such as the increase in the use of complex and hard to value assets. The objective is to ensure that CIS will be in a position to meet redemption obligations and other liabilities.

On 3 May 2013, Committee 5 issued the final *Principles for the Valuation of Collective Investment Schemes*, which identifies comprehensive policies and procedures for the valuation of CIS. It recommends general principles for the development and implementation of such policies, as a means to ensure that CIS asset valuations are not distorted.

Looking Forward

At its February 2013 meeting in Madrid, the committee explored possible future work. A few projects have been identified and will be further discussed to elaborate possible mandates for Board approval. These might include:

- > Liquidation of funds (all types of funds and not just focusing on possibly systemically important funds)
- > Best practices for CRAs in the investment management field
- > Fees and expenses applicable to funds
- > Best practices for custody institutions

Committee on Credit Rating Agencies – C 6

Chair: Randall Roy (US SEC)

An objective of Committee 6 in the year was to foster greater competition among credit rating agencies (CRA) and to increase the transparency of their internal procedures.

IOSCO worked on the premise that new entrants and smaller CRAs can best compete with larger, more established CRAs if they succeed at convincing investors of the high quality of their ratings. Transparency enables

investors to compare the practices of different CRAs, providing smaller competitors a chance to break into the market. It also encourages larger CRAs to update their internal policies and procedures to improve the quality of their credit ratings in order to better compete with each other and newcomers to the market.

In April 2013, Committee 6 published a letter to the G20 describing this and other future work, as well as recent developments in the industry. The letter came in response to a communique issued by the G20 Finance Ministers and Central Bank Governors in November 2012 that stated: *"We encourage further work to enhance transparency of and competition among credit rating agencies and ask IOSCO to provide a report on ongoing work at our meeting in April."*

Committee 6 Mandates

In December 2012, Committee 6 published a report on *Credit Rating Agencies: Internal Controls Designed to Ensure the Integrity of the Credit Rating Process and Procedures to Manage Conflicts of Interest*. The report offers a comprehensive overview of the key risk controls established by CRAs to enhance the integrity of the credit rating process and the procedures established to manage conflicts of interest.

The findings from the report will help inform IOSCO's current review of the *IOSCO Code of Conduct Fundamentals for CRAs*, which is aimed at ensuring the Code remains relevant as the international standard for CRA self-governance. As part of this process, the provisions on transparency in the Code are under review and will be enhanced as appropriate.

IOSCO also carried out a survey of members and CRAs in mid-2012 to determine other areas for improvement in the Code.

The Code was originally published in December 2004 and revised in May 2008, after the outbreak of the financial crisis raised concerns about the role of CRAs and their management of potential conflicts of interest. The objective is to publish the final revised Code in the summer of 2014, after conducting a consultation on it earlier in the year.

Also in December 2012, IOSCO issued a consultation report on *Supervisory Colleges for Credit Rating Agencies*, which recommends establishing supervisory colleges for internationally active credit rating agencies. CRA colleges would be collaborative arrangements between supervisors aimed at promoting information sharing, consultation, and cooperation, in an effort to enhance risk assessment of internationally active CRAs and to support effective supervision of such CRAs.

The final report will be published in 2013 and will provide guidelines on how to establish and operate supervisory colleges.

Commodities Derivatives Markets - C 7

Co-chairs Sarah Josephson (US CFTC) and David Lawton (UK FCA)

In October 2012, Committee 7 issued its final report on *Principles for Oil Price Reporting Agencies* (PRA). These principles are intended to enhance the reliability of the oil price assessments that are referenced in derivative contracts subject to regulation by IOSCO members.

The report stemmed from a G20 request in November 2010 for an IOSCO report on how PRAs assess the oil spot market prices. Committee 7 prepared the report in collaboration with the International Energy Forum (IEF), International Energy Agency (IEA) and the Organization of Petroleum Exporting Countries (OPEC).

Based on this analysis of the PRAs and their operations, the G20 asked IOSCO and the three international organizations to provide recommendations for improving PRA functioning and oversight. After a consultation with stakeholders, the final report recommends the following measures and procedures for PRAs:

- > Formal documentation and disclosure of methodology criteria and procedures together with processes for the periodic review and transparent amendment of methodologies.
- > Priority to be given, where consistent with the PRA's approach to ensuring the quality and integrity of a price assessment, to concluded transactions and measures intended to ensure that the transaction data submitted and considered in an assessment are bona fide, including measures to minimize selective reporting.
- > Procedures to ensure the integrity of information provided.
- > Internal quality control procedures for the assessment process.
- > Document retention standards.
- > Measures to avoid conflicts of interest.
- > A formal complaints process which includes recourse to an independent third party

- > A commitment to make available to relevant market authorities audit trails and other related documentation.
- > An annual independent external auditing of a PRA's compliance with its methodology criteria and the requirements of these principles.

The final report also calls for external auditors to review implementation of the principles by PRAs by June 2014. Committee 7 sent out a questionnaire in early 2013 to gain an idea of how PRAs are currently meeting the principles. With the information it gathers, Committee 7 will provide an update of its work on PRAs to the G20 by September 2013.

Task Forces

Board Level Task Force on Financial Benchmarks

Co-Chairs: Gary Gensler (US CFTC) and Martin Wheatley (UK FCA)

Background and mandate

Recent investigations and enforcement action into attempted manipulation of benchmarks have generated unprecedented regulatory and public focus on the integrity of benchmarks. In September 2012, IOSCO established a Board-level Task Force to identify and consider benchmark related issues (including transparency, methodology, governance, oversight and factors to be considered in transition to an alternative benchmark); and develop principles to support the quality and resilience of benchmarks.

A consultation report, setting out risks related to benchmark setting, and soliciting information to develop the principles was published on 11 January 2013. Feedback was received formally through 54 consultation responses, as well as through an industry roundtable attended by 60 different stakeholder groups held in London. Additional regional and bilateral stakeholder engagement was also held.

The task force prepared a near final set of principles that reflect industry feedback and the views of task force members. After discussion at the IOSCO Board in Sydney, these near final principles were circulated for written approval, and published in April 2013 for a second round consultation period of one month. Around 45 responses were received. The report was due to be published in mid July 2013.

Liaison and cooperation with other bodies

The task force has coordinated with international initiatives conducting related work, including the European Commission's consultation on the regulation of indices, ESMA's Consultation on benchmark setting processes, the BIS Economic Consultative Committee's work on reference rate practices; and it drew on the work conducted by IOSCO Committee 7 on Oil Price Reporting Agencies, and codes of practice developed by the industry.

- Prudential treatment of securitization products;
- Accounting issues, especially regarding consolidation and retention;
- Developing guidance on possible measures that could eliminate or reduce the potentially negative effects of differences in securitization regulation and terminology on cross border transactions;
- Encouraging standardization to increase liquidity in secondary markets; and
- Encouraging sound mortgage underwriting practices (e.g., through implementation).

Other Task Forces

Task Force on OTC Derivatives Regulation

Co-chairs: Kevin Fine (Ontario, OSC) Brian Bussey (US SEC), Warren Gorlick (US CFTC), Tom Springbett (UK FCA)

The Task Force on OTC Derivatives is working on a new project: an analysis of the potential impact of post-trade transparency on the Credit Default Swap (CDS) market.

Task Force on Unregulated Markets and Products (TFUMP)

Co-Chairs: Greg Medcraft (Australia, ASIC) and Edouard Vieillefond (France, AMF)

Securitization

In November 2012, IOSCO released its final report on *Global Developments in Securitisation Regulation*, which proposes a series of recommendations aimed at ensuring securitization markets develop, but on a sound and sustainable basis.

As part of its ongoing work for the G20 on the shadow banking sector, the Financial Stability Board (FSB) requested that IOSCO conduct in 2012 a stock-taking exercise on certain aspects of securitization, including risk retention, transparency and standardization, and develop policy recommendations as necessary.

The final version of the Final Report proposed a toolkit containing 10 recommendations for consideration and analysis by securities regulators that are developing or reviewing risk retention and other securitization regulations. The final recommendations related to:

- > Incentive alignment and risk retention;
- > Transparency and standardization; and
- > Further consideration or work on:

Retail Structured Products

In April 2013, IOSCO published a consultation report on *Regulation of Retail Structured Products*, which analyzes trends in the retail structured product market, and proposes a regulatory toolkit for IOSCO members. The work on regulation of retail structured products responded to concern within the organization about the regulatory challenges these products pose, particularly in the area of investor protection.

Task Force on Unregulated Financial Entities (TFUFE)

Co-Chairs: Nicoletta Giusto (Italy, CONSOB) and Ana Duarte (UK FCA)

The task force has been working closely with Committee 3 and Committee 5 on developing methodologies for identifying systemically important non-bank market intermediaries, including hedge funds. (Please see Committee 3 and Committee 5 above).

In 2012, the task force conducted its second IOSCO hedge fund survey. The survey enables the collection of internationally consistent data for the assessment of potential systemic risks from hedge funds. Regular monitoring by securities regulators of systemic risk indicators/measures, such as size, interconnectedness and substitutability, are important for building a time series of data that will help monitor trends in the global hedge fund industry and provide an invaluable insight into any potential systemic risks that hedge funds may pose globally to the financial system.

At the time of publication of this annual report, the task force was analyzing the aggregated data received, with the aim of finalizing a report on the analysis later in 2013.



Report from the Chair of the Africa/Middle-East Regional Committee

Arunma Oteh

> Chair of the AMERC
Director General,
Securities Exchange Commission, Nigeria

This report highlights the activities and the developments in the jurisdictions of the 22-member countries that make up the Africa/Middle-East Regional Committee (AMERC). It also examines the region's achievements and the challenges it faces meeting international best practices and complying with the IOSCO Principles and Objectives of Securities Regulations.

As part of our commitment to the IOSCO ideals, the region participated in all the IOSCO programs during the period covered in this annual report and made contributions to the work of its committees and task forces. For us, regional meetings remained an essential tool for building bridges across our markets and for reinforcing regional cooperation.

The meetings included:

- > The 29th IOSCO-AMERC Annual Meeting in Beijing, China, 15 May 2012
- > Emerging Markets Conference in Santiago de Chile, 19 – 21 November 2012
- > IOSCO Board Meeting in Madrid, Spain, 3 – 4 October 2012
- > The 2012 AMERC Seminar Training Program in Dubai, 10 – 12 December 2012
- > The 30th AMERC Annual Conference and Meeting, Dubai, 17 – 19 February 2013
- > IOSCO Board Meeting, Sydney, Australia, 21 – 22 March 2013

AMERC Economic Environment

The economies of the AMERC member countries continued to recover, following the global economic crisis in 2009 and the Arab uprisings in 2010 and 2011. Economic indicators showed some improvements, with a positive outlook for 2012.

According to the IMF Outlook for Sub-Saharan Africa, output grew by 5 per cent in this region, except in South Africa, which was affected by slow demand from Europe and the drought-stricken Sahel region.

Improved economic policies, higher foreign exchange reserves, lower government debt, and rising levels of investment and consumption are expected to be key drivers of growth in Sub-Saharan Africa in the near future.

For North Africa and the Middle East, the economic outlook is mixed. While most of the region's oil-exporting countries are growing at a healthy pace, importers continue to face modest prospects, while domestic disruptions constrain growth in some countries.

THE 29TH AMERC ANNUAL MEETING BEIJING, CHINA 15 MAY 2012

Le Conseil Déontologique des Valeurs Mobilières (CDVM) of Morocco and the Financial Services Board of South Africa were selected as the additional AMERC representatives on the IOSCO Board for two-year terms.

At the meeting, discussions focused on how to improve procedures within the new IOSCO structure to ensure that emerging markets-- which represent 75% of the IOSCO membership-- take a more active part in decision making.



Members also observed that:

- > There were several non-member jurisdictions within the region that should be encouraged to become IOSCO signatories, e.g., Namibia, Rwanda, Cameroon, Zimbabwe, Botswana, Qatar amongst others.

We also noted that:

- > Multilateral organizations such as the World Bank and the International Monetary Fund had performed credibly in providing financial and technical assistance to member and non-member jurisdictions within the region.
- > With regards to the integration of markets, it was observed that regionalization of markets was key and members should consider analyzing the risk affecting their markets.
- > World economic growth had been driven by emerging markets; thus members must consi-

der the role of the Emerging Market Committee (EMC) going forward.

We alerted members to AMERC's low visibility in the IOSCO agenda and initiatives, and stressed that the region was important enough for members to be actively involved in relevant initiatives.

30TH AMERC ANNUAL MEETING AND CONFERENCE, DUBAI, 17 – 19 FEBRUARY 2013

The region held its 30th annual meeting and conference in Dubai, the United Arab Emirates, from 17 – 19 February 2013. The conference, based on the theme *Risk Based Supervision: A Global Agenda*, attracted the participation of about 40 delegates from 13 jurisdictions. It also benefited from the attendance of the Capital Markets Authority, CMA, Kuwait, as an observer to the meeting. Overall, the event was highly successful.



Cross section of participants at the 30th AMERC Meeting in Dubai

As Chair, I applauded in my opening speech the Dubai Financial Services Authority (DFSA) as the host of the annual meeting and conference, and acknowledged the excellent amenities it extended to all delegates during the two events.

The conference also featured a panel session that debated the *Challenges to Introducing Risk-Based Supervision*. Presentations were based on country experiences.

The panel, which was moderated by the chief executive officer of Capital Markets Authority (CMA) Uganda, Mr. Japheth Katto, featured participants from CDVM, Morocco; DFSA, Dubai; and SEC Nigeria.

The panelists acknowledged that risk-based supervision (RBS) is not a one-cap-fits-all solution. The peculiarities of each market should determine the approach that each one takes to RBS. Bryan Stirewalt (DFSA) emphasized that information technology alone cannot provide an answer to the challenges of RBS. Rather it offers only a clue. Mr. Bala Usman (SEC Nigeria) explained that RBS recognizes the diversity of markets; the principles of RBS merely provide guidance to enable each market to discover its own way forward. He urged flexibility in implementation, and noted the need for regulators to coordinate their efforts, adding that the global financial market cannot afford another financial failure. The panelists agreed that in applying the RBS approach to regulation, regulators should have adequate knowledge of the business in their jurisdictions, the flow of capital at global and regional levels, and the interconnectivity among different markets since what occurs in one jurisdiction could have a domino effect on others.

In discussing risk as it affects the various jurisdictions, the following were identified:

- > Concentration risk: a situation in which a few firms control market activity.
- > Reputational risks: where an entity's image and ability to conduct its duties and functions are in doubt.
- > Compliance risk: inability of firms to adhere to reporting standards and corporate governance issues, and where developed markets may not comply with the standards they expect emerging markets to meet.
- > Market manipulation risk: insider trading, and ethics in private companies.

- > Capital Adequacy risk for intermediaries: operational risks not matching financial capability.
- > Challenges dealing with information technology and infrastructure, automated trading, and mixed-manual, leading to an inability to adequately detect manipulation.
- > Regional integration, though participants have yet to conceptualize the risks associated with a regional market.
- > Legislative turnaround time in legal reform. Legal gaps and a plethora of new laws and rules.
- > Inadequate capacity in terms of human capital and infrastructure; inadequate expertise on capital market products and innovations exposes regulators to the risk of ineffective decision making.
- > Regulatory risk occasioned by measures to protect the market but opposed by political class.

IOSCO BOARD MEETING HELD IN SYDNEY, AUSTRALIA, 21 - 22 MARCH 2013

The meeting deliberated on several issues of particular interest to AMERC; *the IOSCO Foundation, the International Secondment Register, Board Composition Post 2014, Future Work of the EMC, Communication Strategy, Board Working Modalities, Consideration of New Workstreams, Application for Membership and Transition of the IOSCO Board Leadership*.

During the meeting, I re-echoed the region's concern regarding its representation on the Board as conveyed in a letter dated 27 February 2013, expressing its demand for an equitable representation on the new IOSCO Board. This under-representation is evidenced by the limited number of members from the AMERC Region on the Board.

SEMINAR TRAINING PROGRAM (STP)

In collaboration with IOSCO and the International Islamic Financial Market (IIFM), the Securities and Commodities Authority (SCA) hosted a two-day Seminar Training Program (STP) in Dubai, from 10 – 12 December 2012. (See the chapter on IOSCO Education and Training for more information).

RESPONSE TO SURVEY QUESTIONNAIRES

AMERC members have continued to increase their participation in IOSCO Surveys. Indeed, the Africa/Middle



East Regional Committee emerged the *best in class* in responding to the EMC Chairman's Task Force Fifth Survey. The report dated 14 November 2012 showed that out of the four Regional Committees of IOSCO, AMERC jurisdictions provided 36% of the respondents. The survey sought an overview of the new supervisory regulatory issues facing member jurisdictions.

MEMBERSHIP DRIVE

The region's membership increased from 22 to 25 following Board approval at its meeting in Sydney, Australia of the following affiliate membership applicants:

- > The Nigerian Stock Exchange (NSE)
- > Johannesburg Stock Exchange (JSE)
- > Union of Arab Securities Authorities (UASA)

Approval was given to one of our former members, the Israel Securities Authority, ISA, to switch its membership to the European Regional Committee.

COMMUNICATION ENHANCEMENT

We continue to ensure information sharing in order to improve benchmarking and increase the cross-border exchange of learning experiences. The AMERC Quarterly bulletin, therefore, remained a key vehicle for this purpose.

COMPLIANCE WITH IOSCO Multilateral Memorandum of Understanding (MOU)

Four jurisdictions in the region became Appendix A signatories to the IOSCO MMoU during the period under review, leaving only four members on Appendix B, the list of members who have formally expressed their commitment to seek the legislative and administrative changes necessary for achieving MMoU compliance. By April 2013, seventeen (17) members from the region were signatories.

FUTURE PLANNED ACTIVITIES

In order to further build capacity and strengthen enforcement activities the Financial Services Commission



(FSC), Mauritius was asked to host the Emerging Markets Bond Markets Conference Outreach for AMERC from 1 – 5 July 2013.

We will continue to encourage members who are yet to become signatories to the MMoU to commit to a speedy conclusion of the process during the coming year. The region will continue to drive education and awareness of new products, particularly the introduction of Islamic products, to further boost financial inclusion and wealth creation.

Raising the visibility of AMERC will continue to be my priority. Consequently, our members will be encouraged to play more active roles and seek responsibilities within IOSCO, particularly in the Emerging Market Committee (EMC).

Non-member jurisdictions within the region will be encouraged to seek membership. Our focus will be on Namibia, Rwanda, Cameroon, Zimbabwe, Botswana and Qatar, among others. We believe the IOSCO Foundation will be of great assistance in this direction.

Our Challenges

While our challenges may appear similar to those facing other emerging markets, our specific challenges include:

- > Developing SME financing
- > Capacity Building
- > Risk Management and implementation of risk-based supervision
- > Sustained development of corporate bond markets
- > Dominant role of short-term financing
- > Public Awareness/Financial inclusion, and
- > Regional integration of our capital markets.

We will leverage on the IOSCO Foundation, the goodwill of the IOSCO General Secretariat and the equity and fairness principles as practiced by IOSCO to overcome our challenges and complete our planned activities for 2013.



Report from the Chair of the Asia-Pacific Regional Committee (APRC)

Mr. U. K. Sinha

> Chair of the Asia Pacific Regional Committee
Chairman, Securities and Exchange Board of India

The Asia-Pacific region is the world's fastest growing economy. The average growth rate of its real gross domestic product (GDP) was higher in 2012 than the world average. In coming years, the region is expected to continue to be a major contributor to the world economy. In terms of market capitalization, the Asia-Pacific region accounts for approximately 30% of the global market capitalization.

The real GDP of the Asia-Pacific region grew 5.3 per cent in 2012 and is projected to grow 5.7 per cent in 2013 and 6.0 per cent in 2014, according to the International Monetary Fund (World Economic Outlook). Asia's economic performance was subdued during 2012, but growth is set to pick up gradually during 2013 on the back of strengthening external demand and continued robust domestic demand. The key medium-term priority for the Asia-Pacific jurisdictions is to sustain economic growth and spread its benefits among a larger portion of the population.

APRC Activities during 2012

The Asia-Pacific Regional Committee comprises 25 members. During the year 2012, APRC held two meetings. The first meeting took place during the 37th IOSCO Annual Conference in Beijing, China in May 2012. The next meeting was held in Bangkok, Thailand on 29 November 2012.

APRC Meeting, Beijing, May 2012

During the Beijing meeting, the APRC members discussed the current developments in the financial sector and their impact on the Asia-Pacific region. APRC members shared their views and also highlighted the

need to engage with one another in a constructive and fruitful manner on common causes. Participants in the meeting stressed the importance of the IOSCO Multilateral Memorandum of Understanding, and the IOSCO General Secretariat provided an update on the progress status of the non-signatories to the MMoU in the Asia-Pacific jurisdictions. An update also was provided by the Assessment Committee on its objectives, responsibilities, programs and forward work plans.

As of 31 March 2013, 17 out of 25 members of the regional committee were signatories to the IOSCO MMoU as compared to 16 the previous year. Labuan Financial Services Authority became a full signatory during the Annual Conference in Beijing. As APRC Chair, I encouraged the remaining eight member jurisdictions to sign the MMoU, before the impending deadline. During Nov 2012, I wrote to each of the eight jurisdictions to indicate the latest status of their application and to offer all assistance and support that might be required in this regard.

APRC Meeting, Bangkok, Nov 2012

The APRC events in Bangkok kicked off with an APRC Enforcement Directors' (ED) meeting on 28 November 2012. The initiative to schedule the ED meeting was well received by the APRC members and was attended by senior enforcement officers of 15 jurisdictions of the Asia-Pacific region. The meeting underscored the need to further enhance mutual cooperation and infor-



mation sharing on enforcement related issues within the region. The takeaways from the meeting were circulated to all the members for mutual benefit.

The APRC meeting was held on 29 November 2012 in Bangkok. The IOSCO Secretariat provided an update on the G20 and FSB workstreams and the IOSCO Board meeting of October 2012. It also highlighted the role and importance of the IOSCO Foundation and the IOSCO MMoU. During the meeting, the securities regulators from Australia, Japan, Hong Kong and India shared their countries' experience in regulating the area of algorithmic/ high frequency trading. The discussion emphasized the key challenges facing jurisdictions in the Asia-Pacific region as a result of this rapidly evolving type of trading. Potential ways of dealing with these challenges were also discussed.

During this meeting, I proposed an initiative to develop a database for sharing information on enforcement actions. This Central Enforcement Database will enable member jurisdictions to determine preventive or remedial action required to be taken by other APRC members, especially in cases of possible cross-border activities by an alleged offender. It also would help to understand the recent trends in fraudulent cases unearthed in one jurisdiction that could be possibly sur-

face in others. The database has since been developed with the help of the IOSCO General Secretariat and was expected to be available for use by all APRC members in mid-2013.

In the Bangkok meeting, I introduced the APRC Digest as one of the initiatives for information sharing on the trends in securities markets and recent regulatory developments in the region. The objective of the Digest, which is released on a quarterly basis, is to bring together such regional information in one place for easy reference. Three editions of the APRC Digest have been released during my tenure as APRC Chair.

Specific regional issues faced by APRC Members

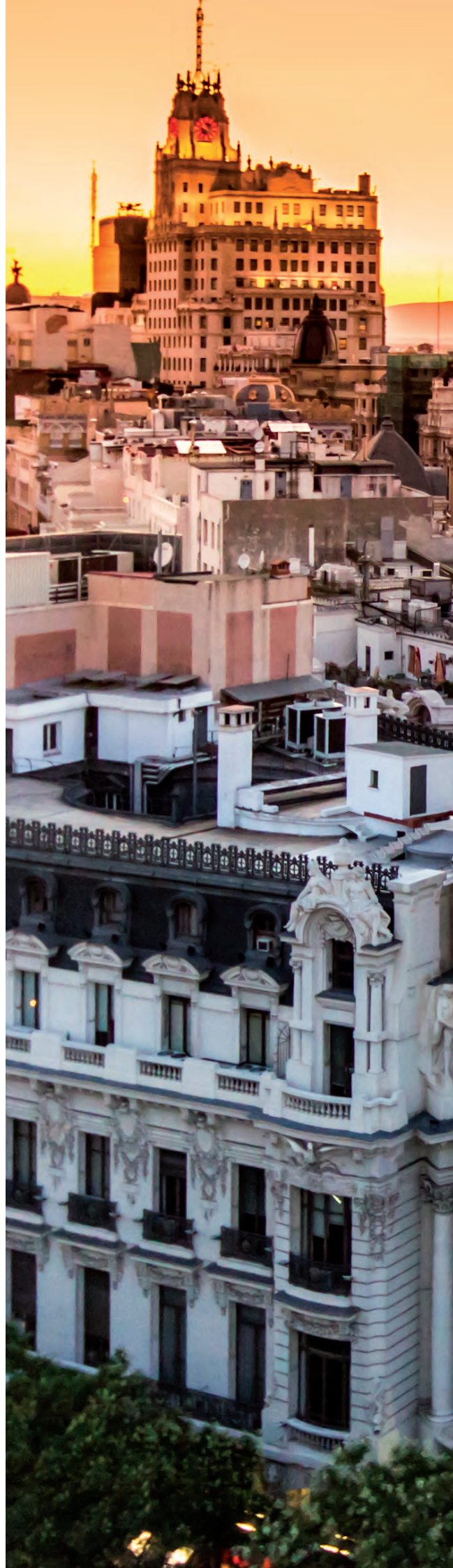
- > In order to bring into focus the specific issues faced by the APRC jurisdictions, the APRC meeting in Bangkok was preceded by a roundtable on Identifying and addressing emerging risks in the securities market in the APRC region; particularly in the context of global development in the financial markets. In addition to securities regulators from the

region, the roundtable was attended by four senior executives drawn from different areas of the private financial services industry of the Asia-Pacific region, who shared their valuable perspectives.

- > The APRC meeting was followed by a Public Seminar on 30 November 2012 where regulators and market participants met to share their perspectives on the important common issues facing the markets in the APRC region. The first panel discussion was on Opportunities and challenges for SME financing through capital markets during which the panelists discussed the opportunities, challenges and options for SME financing through the capital markets. The second panel discussion focused on Capitalizing on regional growth prospects: enlarging opportunities for asset management companies. The panelists discussed the opportunities and challenges for asset management companies in cross-border investment activities from the viewpoints of fund managers and financial regulators.
- > An example of positive collective action aimed at protecting common interests was the coordinated response by APRC members to the Consultation paper issued by the European Securities and Market Authority (ESMA) on Draft Guidelines on the Supervisory Cooperation Arrangements required by the Directive on Alternative Investment Fund Managers. APRC outlined the common areas of concern for its members.

Future Planned Activities

- > APRC members will continue to engage each other on issues of common concern to securities market regulators in the Asia-Pacific region, and to present a common voice while dealing with other global bodies on issues arising from the evolving regulatory landscape.
- > The Central Enforcement Database has been developed by the APRC Secretariat with the help of the IOSCO Secretariat. The launch of the central enforcement database will enable APRC members to share enforcement related information.







Report of the Chair of the European Regional Committee

Carlos Tavares

> Chair of the European Regional Committee
Chair, Comissão do Mercado de Valores Mobiliários,
Portugal

The IOSCO European Regional Committee (ERC) is composed of 50 IOSCO members from the European region (49 ordinary members and one associate member). ERC members discuss topics of common interest and consider leading issues under discussion in the main IOSCO Committees. These activities are facilitated by the participation of the ERC chair in the IOSCO Board meetings.

On the occasion of the IOSCO Annual Conference in Beijing in May 2012, I was reelected Chairman of the ERC. Mr. Jean-Paul Servais of the Financial Services and Markets Authority, Belgium and Ms. Claudia Catalina Sava of the Romanian National Securities Commission, Romania were elected as ERC representatives to the IOSCO Board.

In 2012 two changes occurred in the ERC membership: the Israel Securities Authority moved from observer status to full-member status in the regional committee; and the European Securities and Markets Authority (ESMA) joined the ERC as an IOSCO associate member. Moreover, the Financial and Capital Market Commission, Latvia was admitted in early 2013 as an IOSCO ordinary member, and consequently became a member of the ERC.

ERC's activities (May 2012 – April 2013), its concerns and challenges in the year ahead

During the period in question, the ERC held three meetings: in Beijing (15 May 2012), in Paris (25 September 2012) and in Lisbon (7 March 2013).

In the course of those meetings, and as per current practice, ERC members received information on key issues discussed by the IOSCO Board. The information

focused on the projects and activities of IOSCO's policy committees and task forces, in accordance with their respective mandates. ERC members also were briefed on IOSCO's involvement in other international *fora*, namely the Financial Stability Board and the G-20. These issues and activities were included as an ERC Agenda item for due consideration and discussion by ERC members in advance of Board meetings, allowing for committee input where deemed appropriate.

On the IOSCO Strategic Direction Review 2010-2015, the ERC provided a collaborative written submission to IOSCO's internal consultations on membership and voting rights issues. It also engaged in discussions regarding the decision-making process of IOSCO bodies, the Board composition and its working modalities. The ERC regularly discussed and made presentations on the proposed IOSCO Foundation, which is expected to finance IOSCO activities in the areas of technical assistance, education and training, and research on global securities market issues.

In addition, the ERC debated and produced a discussion paper on its role in connection with the Strategic Review. The paper set out the main goals and concerns for the ERC within the context of IOSCO's new organizational structure. Particular emphasis was given to strengthening the ERC's say in policy and implementation issues.

Regarding the implementation of the IOSCO Multilateral Memorandum of Understanding (MMoU),

the ERC continued to provide regular updates and undertake initiatives, including an outreach to those ERC members who had not yet become MMoU signatories (see page 29 for more information on the MMoU). A formal request was made to non-signatory members to provide periodic progress reports on the status and progress of their MMoU application ahead of the 2013 deadline.

The ERC also was briefed on the MMoU 2012 Resolution that is aimed at achieving full implementation of the MMoU by the IOSCO membership.

At the end of March 2013, 42 of the 49 ERC members eligible to sign the MMoU had become full signatories, while four members were listed on Appendix B, the list of members who lack the legal authority to fully comply with the MMoU provisions but who are committed to becoming signatories. By early May 2013 one member had been invited to list on Appendix B but had not yet formally committed to seeking the legal authority necessary to enable full signature; another member's MMoU application was under review by IOSCO.

Throughout the above mentioned period, members continued to discuss topics of particular relevance to the European region. Discussions focused mainly on emerging risks and trends in members' financial markets, in addition to the regular exchange of information on relevant regulatory developments in the various jurisdictions. In connection with these activities, several speakers (both external and internal) were invited to make presentations, followed by a discussion with committee members.

Of the topics discussed, the following are particularly noteworthy:

- > The supervisors' role in enhancing transparency and simplicity when regulating and supervising structured products,
- > Conflicts of interest in the selling of complex products, and
- > High frequency trading.

Committee members continued to be regularly informed of the activities of the European Securities and Markets Authority (ESMA) and of the latest developments with regard to EU proposals to strengthen the European financial supervisory framework. Key topics focused on the Alternative Investment Fund Managers Directive, the preparation of Regulatory Technical Standards in connection with the European Market Infrastructure Regulation (EMIR) and Package Retail Investment Products (PRIPs), and on ESMA's advice to the European Commission regarding the Market Abuse Directive (MAD) and the Markets in Financial Instruments Directive (MiFID). ESMA's activities also included the supervision of credit rating agencies, the registration of trade repositories and the establishment of colleges of regulators for central counterparties.

In the near future, the ERC will remain committed to providing relevant input to IOSCO's internal discussions on implementation, policy and strategic issues. It also will continue to analyze and discuss regulatory developments, as well as emerging risks and trends, both within the European region and in global securities markets. These regular discussions will allow for a more efficient and effective interconnectedness among IOSCO bodies, particularly when considering relevant work for the future.





Report from the Chair of the Inter-American Regional Committee

Fernando Coloma

> Chair of the Inter-American Regional Committee
Chairman, Superintendencia de Valores y Seguros, Chile

First and foremost, it is my great pleasure to address the entire IOSCO membership for the first time as the new Chair of the Inter-American Regional Committee. For IARC, it has been a very active period, as regional regulators faced the tough challenges arising from the impact of the financial crisis. We are experiencing times of uncertainty worldwide. Though the economic outlook for the region--and for Latin America in particular-- remains relatively positive, it is subject to uncertainty and volatility arising from the external environment.

In this context, the IARC / COSRA (Council of Securities Regulators of the Americas) meetings have offered the region's different jurisdictions the opportunity to share their common concerns and to seek together new solutions and initiatives to meet the challenges they face. IARC held two meetings during the period covered by this annual report: in Beijing, China in May 2012 and in Port of Spain, Trinidad & Tobago in October of the same year.

Activities and Topics treated in the period

Some very interesting and relevant topics were dealt with during 2012, especially at the Trinidad and Tobago meeting. One of them was the retail forex issue. Ms. Regina Thoele from the National Futures Association (NFA) of the US was invited to present this topic to the IARC / COSRA members. Participants had the opportunity to discuss the difficulties and challenges facing regulators as they regulate and oversee the retail forex business and seek to provide adequate protection to investors.

Another subject discussed was the implementation of the International Financial Reporting Standards (IFRS) in the region. The discussion highlighted the diversity of approaches taken by the different jurisdictions and the difficulties inherent in the transition from GAAP rules to an IFRS scheme. IFRS should be seen as an

example of high-quality internationally- acceptable accounting standards. In this regard, IARC /COSRA and the IOSCO Committee on Issuer Accounting, Audit and Disclosure (C1) have a significant role to play in helping address the difficulties encountered by regional jurisdictions in implementing these standards.

Also during the period covered by this annual report, we had the opportunity to review the last report on small and medium enterprises (SME) issued by the SMEs working group. The report heightened our awareness of the difficulties faced by SMEs in the region, especially vis-à-vis their need to raise capital for sustainable development. Because SMEs account for a large portion of gross domestic product and job creation, regulators and policy makers should attend to their needs as quickly and as efficiently as possible.

Participants at the IARC /COSRA meeting in Port of Spain also discussed shadow banking, which reflected the importance of unregulated credit and liquidity providers to market stability, crisis prevention and management. Dealing with the challenges posed by shadow banking requires a commitment from every country and every international organization. The financial crisis has shown that if one country does not properly address this issue, the consequences may be felt by others. Similarly, the solution that each country adopts also may affect others.



As indicated above, much work is required to deal with these different subjects and to respond with efficient and innovative solutions. In this sense, the IARC / COSRA meetings are an outstanding venue to share experiences periodically, and to help each other.

Regional Issues

Though the region, in general, has escaped, the worst of the financial crisis, regulators there are aware of emerging local and global risks that could arise from the new global environment. Similarly, they realize that traditional risk could materialize in nontraditional circumstances, such as the aforementioned financial crisis.

In this context, members indicated the topics they thought important to the region, during the recent IARC/COSRA meetings and in response to a subsequent survey. Some of the issues raised included the possibility of setting-up a task force on cross-border regulation, as well as corporate governance and compliance monitoring; risk-based supervision as a means to strengthen market oversight, and emerging forms of alternative financing.

COSRA members signaled their concern about members that are still non-signatories of the Annex A of the IOSCO Multilateral Memorandum of Understanding (MMoU). Non signatories were encouraged to sign as soon as possible, given that the MMoU promotes cooperation among regulators.

Future Planned Activities

At the time of publication of the annual report, two IARC /COSRA meetings were scheduled for 2013: one in Lima, Peru, on 6 - 7 May and the other in Quebec City in October. For the IARC / COSRA Lima meeting, participants agreed to address the following topics: progress in Latin American Market Integration, known as MILA; risk-based supervision; and finally the conflict of interest vis-à-vis the recommendations made to retail customers via automated advice and the social media used to attract customers.

It was undoubtedly a very fruitful year. A wide spectrum of topics and issues were considered, and some relevant progress was made. Nonetheless, challenges remain. Member regulators will need to cooperate and share experiences in an effort to meet them.



Report from the Chair of the Assessment Committee

Steven Bardy, Chair

> Chair of the Assessment Committee

The Assessment Committee (AC) was established in early 2012 by the then Executive Committee as an initiative of IOSCO's 2010-2015 Strategic Direction Review. The responsibilities of the AC include developing and delivering programs to identify and assess implementation of IOSCO's Objectives and Principles of Securities Regulation (IOSCO Principles) and other standards and policies set out in IOSCO reports or resolutions approved by IOSCO (IOSCO Standards) across the IOSCO membership.

I chair the committee, ably assisted by Amarjeet Singh from the Securities and Exchange Board of India (as Vice-Chair) and Jean-Paul Bureaud from the Ontario Securities Commission who chairs the Implementation Task Force Sub-Committee (ITF SC).

We have also received strong support from the 27 IOSCO members represented on the committee, the IOSCO Secretariat and the International Monetary Fund (IMF), which has observer status.

Our objectives

The AC's primary objective is to encourage full, effective and consistent implementation of Principles and Standards across IOSCO membership.

This will – in turn – contribute to:

- > Supporting our objectives of Investor protection, fair and efficient markets and reducing systemic risk globally;
- > Reducing opportunities for regulatory arbitrage;
- > Reducing the costs of conducting business across borders; and
- > Improving regulatory capability.

Our responsibilities

The AC is responsible for:

- > The design and conduct of reviews of Self Assessments prepared by particular IOSCO members about implementation of IOSCO Principles (Country Reviews);
- > The design and conduct of reviews of implementation across the IOSCO membership of particular IOSCO Principles and particular standards developed by IOSCO (Thematic Reviews); and
- > Maintaining and periodically updating the IOSCO Principles and related Methodology.

Our activities are aligned with the work of the Financial Stability Board's (FSB) Standing Committee on Standards Implementation (SCSI) and the Coordination Framework for Implementation Monitoring (CFIM). We work closely with the FSB and with the IMF in the design and delivery of our programs.

These activities are also of increasing importance as both the G20 and the FSB focus on the need for jurisdictions to implement international standards – particularly those developed in response to the crisis.

Our work during 2012 and 2013

Our work since IOSCO's last annual report has focused on developing our mandate, designing our processes, developing a forward program and launching reviews.

The committee has met three times – in June 2012 (Toronto), September 2012 (London) and January 2013 (Auckland).

Thematic Reviews

Our Processes

The AC has developed processes for the conduct of these reviews based on the *FSB Peer Review Handbook*. The processes are set out in a Process Document. The processes are intended to provide for robust reviews supporting the desired outcomes of our programs. Our intention is to keep the Process Document under continuous review as we conduct and develop our expertise in Thematic Reviews.

First Thematic Review

In mid-2012 the Board endorsed our proposal to conduct a Thematic Review of the implementation of IOSCO Principles 6 and 7 (which are about processes to monitor, mitigate and manage systemic risk and reviewing the regulatory perimeter, respectively). These Principles – introduced in 2010 – were a key part of IOSCO's response to the crisis.

The review is intended to provide us with a snapshot of implementation of these Principles across IOSCO's membership. The review is an opportunity for members to share better developed processes, implementation experiences, the challenges faced and how they have been dealt with.

The Review Team, comprising representatives from nine jurisdictions, is led by Gert Luiting of the Netherlands AFM.

The work to date has centered on analyzing findings from a survey questionnaire to which 34 members responded in late 2012. The survey collected information about the following:

- > Regulatory structure, legislative processes and systemic risk exposure in the jurisdiction;
- > Whether the jurisdiction has a definition of systemic risk, structures and processes in place for identifying systemic risk, the relevant powers of the securities regulator, communication and/or

cooperation with foreign regulators and lessons learned from implementation challenges;

- > The general structure and processes for the regular review of the regulatory perimeter, powers of the regulator and other financial regulators, processes in place, lessons learned from implementation challenges and processes for monitoring unregulated financial markets and products; and
- > Issues with the methodology for IOSCO Principles 6 and 7 on systemic risk and the regulatory perimeter, respectively.

The findings of this Review are to be presented to the Board in June with a view to publication later in the year.

Forward Work Program

In 2012 we agreed to start two further Thematic Reviews by the end of 2013.

We have discussed ideas for the subject matter of these reviews with IOSCO Task Forces and committees and with both the FSB and the IMF.

Our thinking in the design of the forward program has been driven by:

- > The high priority given by the G20 and the FSB to assessing implementation of international financial standards developed in response to the crisis;
- > The particular priority the FSB is giving Implementation of over-the-counter derivative (OTCD) reforms and the work it has started in that space; and
- > Recent key IOSCO reports which foreshadow the need for future implementation reviews.

Based on these factors and earlier discussions within the AC and other standard-setting bodies, we have asked the Board to approve a program comprising the following:

1. A review in two stages of implementation of over-the-counter derivative reforms relating to IOSCO's June 2012 Report on *International Standards for Derivatives Market Intermediary (DMI) Regulation* in parallel to (but not overlapping with) reviews undertaken by the FSB.

The DMI Standards make recommendations to IOSCO members about the regulation of DMIs. The standards were developed to further the ob-

jectives of the G20 commitments on OTC derivatives by developing high-level standards for the regulation of market participants that are in the business of dealing, making a market or intermediating transactions in OTC derivatives.

We aim to work in close cooperation with the OTCD Task Force on this Review.

2. A short project suggested by the IMF in an area warranting review in light of recent Financial Sector Assessment Program (FSAP) experiences.

In 2013 we also plan to play a role in supporting the CPSS-IOSCO Steering Group through the CPSS-IOSCO assessment of the implementation of the Principles on Financial Market Infrastructure.

Looking even further forward, we also envisage that in 2014, we will undertake reviews of implementation of IOSCO work driven by the FSB – namely:

- > IOSCO's November 2012 Report on *Global Developments in Securitisation Regulation*; and
- > IOSCO's October 2012 Report on *Policy Recommendations for Money Market Funds*.

Both these reports foreshadowed AC reviews during 2014.

We also will continue discussions with committee and Task Force Chairs about possible areas of work as the need arises.

Country Reviews

Our Approach and Processes

During 2012 we agreed that we would offer Country Reviews to the following members:

- > Members from jurisdictions that are not G20 jurisdictions or are not members of the FSB (to ensure no overlap with the work of the IMF);
- > Members that have not been subject to an FSAP in the last five years or which are not expected to be the subject of a securities FSAP in the next three years (based on advice from the IMF);
- > Members that are either Appendix A signatories to the MMoU or Appendix B signatories close to migration;
- > Members that have requested an Assisted Self-Assessment Program by IOSCO;

- > Members who are not the subject of other assessment programs (for instance assessment programs conducted by the SEC).

Our focus will be on jurisdictions with an active capital market or aspirations to develop such markets.

We also agreed to take into account qualitative considerations (including experience with the member in progressing MMoU applications) in deciding on a list of candidates.

We also agreed our approach to these reviews would be driven by the need to support assessed countries in developing and enhancing their regulatory frameworks.

Our thinking was reflected in a draft Process Document for Country Reviews prepared during 2012. This document will continue to be updated as we develop and implement our programs.

First Country Review

In late 2012 we approached a pool of candidates to participate in our first review. Our approaches outlined the benefits of our programs and how those programs might be conducted. The approaches also tested candidate appetite to publish the outcomes of the Review and the need for technical assistance and financial support.

We received expressions of interest from four member jurisdictions, and discussions with two member jurisdictions are now well advanced. We are now working on taking these Reviews forward. We are confident we will be able to start two reviews this year as requested by the Board.

Positioning Strategy

A working group convened by the AC Vice Chair is also developing a positioning strategy which would assist in marketing and positioning Country Reviews to IOSCO members. The strategy will focus on creating awareness of the Assessment Committee, improving the on-line presence of the AC, creating a global database of assessments and generating interest and demand for the Country Review Program.

Work of the Implementation Task Force Sub Committee (ITF SC)

In June 2012, we created the ITF SC to assume primary responsibility for developing an ongoing and dynamic process for maintaining and updating the IOSCO Prin-



ciples and related Methodology. In early 2013 the ITF SC discussed its initial priorities and ways to advance various work streams. These include the following:

Correcting textual errors in the Methodology:

This work is about proposing edits to correct grammar and syntax errors identified in the new Methodology (which was adopted by IOSCO in September 2011), as well as edits to clarify confusing and ambiguous text. The corrections are designed not to change the substance of the Methodology. The ITF SC also reached out and received feedback from assessors and jurisdictions on their experience in working with the 2011 Methodology. This feedback will be considered as we work to improve the Methodology.

Progressing translation of the Methodology:

This work relates to translating the Methodology into IOSCO's other official languages - namely Spanish, French and Portuguese. This initiative will improve accessibility of this core IOSCO document to more members.

Revising the e-Methodology, an on-line system that was created by IOSCO to facilitate self-assessments by its members:

This work is about developing a new and improved on-line self-assessment questionnaire built on IOSCO's new technology platform. The ITF SC also agreed to develop clear protocols around the confidentiality of any information filed on-line using the questionnaire.

In addition to improving access and awareness of the Methodology, this initiative is intended to encourage self-assessments by IOSCO members.

Developing a dynamic framework for updating the Principles and Methodology:

This work is about how to revise and improve the IOSCO Principles and Methodology. A key issue that will need to be addressed is developing a common understanding of the relationship between the IOSCO Principles and Methodology and any new codes, standards, guidance, or *good practice* expectations developed and agreed by IOSCO (collectively, IOSCO standards). This includes establishing agreed criteria for when and the extent to which we would review and revise the IOSCO Principles and the Methodology in order to reflect and incorporate any new IOSCO standards. The ITF SC is seeking to develop a clear framework of how to proceed with any review and revisions to the Principles and Methodology this year.

Next Steps

Through this year, our main focus will be on conduct of thematic reviews and country reviews as per our plan outlined in this report. Besides, we will also develop protocols for how we work with the FSB SCSI.

The main challenges I see in our work going forward will be to resource and deliver timely and robust assessments and reviews in each of our work programs, and to align our work with that of the FSB and IMF.

IOSCO Research

The Research Function of IOSCO was set up in 2010 under the Strategic Direction 2010-2015 to assist IOSCO in its efforts to identify, monitor and manage systemic risks. Since securities markets are characterized by rapid change and financial innovation, securities market regulators and IOSCO need to keep abreast of new products, business models, activities, participants and the potential systemic risks they may create. Research will help IOSCO focus its strategic policy agenda.

IOSCO's Research Function consists of two branches that work in close co-ordination. The Standing Committee on Risk and Research (SCRR, to be renamed the Committee on Emerging Risks), chaired by Mr. Carlos Tavares, Chairman of the Portuguese securities market regulator, CMVM, is composed of senior research professionals from around 25 securities markets regulators, while the General Secretariat houses a small Research Department guided by the Head of Research, Mr. Werner Bijkerk.

In September 2012 the *IOSCO Securities Market Risk Outlook 2012* was published internally along with the *Risk Outlook Survey Report*. The next Risk Outlook is scheduled for publication in September 2013. Meanwhile the Research Department has been working on gathering information and data from the SCRR and other IOSCO experts, as well as from key experts in the market and the academic world, using an ample set of instruments: round tables, market intelligence, surveys and data search. In various occasions, it reported the main risks it found to the Board, other IOSCO members and stakeholders, including: (1) risks related to the low interest rate environment, (2) risks related to the stressed funding environment of financial institutions, (3) risks stemming from the derivatives markets (4) and cyber-crime.

In this respect, the SCRR and the Research Department have jointly developed a Risk Dashboard. This Dashboard presents a series of indicators mainly based on publicly-available data and a few commercial databases to which the Research Department has had access since early 2013 in order to monitor the developments in the securities markets and to help assess potential risks. The Dashboard helps inform the research function of IOSCO and the IOSCO members.

Additionally, the SCRR is currently producing draft guidelines for securities market regulators on how potential systemic risks can be identified, monitored and mitigated. This will include a methodology that will help define how a risk can become systemic in nature. The guidelines are meant to be a more detailed follow-up of the new IOSCO principles 6 and 7 on systemic risk and the regulatory perimeter, respectively.

Furthermore, at the time of publication of the annual report, the Research Department was expected to publish a staff working paper on the risks of cyber-crime. This paper is partly based on a survey of many exchanges and clearing houses that was a joint effort with the World Federation of Exchanges.

In its capacity as global standard setter of securities market regulation, IOSCO supports the global risk identification and mitigation efforts by the G20, the Financial Stability Board (FSB), the International Monetary Fund (IMF) and other global organizations that are tackling similar issues, but from different perspectives. Staff of the Research Department and the Chair of the SCRR provide regular input about potential systemic risks from a securities market perspective at different fora.

Ultimately, IOSCO's efforts towards identifying, monitoring and mitigating risks throughout the financial system should promote an appropriate degree of financial stability by curbing excessive risk taking, improving investor protection and facilitating capital formation.



IOSCO's Education and Training Programs

IOSCO's Education and Training Program has become a powerful vehicle for advancing the organization's regulatory goals and building the regulatory capacity of its members. By drawing on the expertise of its policy committees and its broad array of contacts in industry, academia and the regulatory community, IOSCO keeps its members abreast of relevant developments in securities markets and helps prepare them for the regulatory challenges that lie ahead, particularly in the fast growing emerging markets.

IOSCO E&T Activities 2012-2013

IOSCO Seminar Training Program

The 2012 Seminar Training Program (STP) was successfully conducted at IOSCO's headquarters in Madrid from 23 to 26 October 2012. Entitled *Corporate Governance Issues Related to Securities Firms and Sanctions for Market Abuse*, this intense four-day program was developed based on the responses received from IOSCO members in a comprehensive education and training-needs analysis. It examined the critical aspects of corporate governance and the sanctions for market abuse. The STP was attended by 70 delegates from 42 jurisdictions, and received outstanding feedback and evaluations.

The 2013 Seminar Training Program will be held in Madrid from 22-25 October 2013. The program and further information will be made available in due course.

Building on the success of the annual STP, IOSCO organized similar mobile training seminars in the different regions, using the same broad format, theme and materials. These seminars were held in 2012 and 2013 in the European, Africa / Middle-East, and Asia-Pacific Regions, and dealt with the different subjects of new financial products, investor education, corporate governance, and sanctions for market abuse. All of the Mobile STPs received very good feedback from participants.

The Cyprus Securities and Exchange Commission hosted the European Mobile STP in Nicosia, Cyprus on 22-24 February 2012. This seminar on *New Financial Products: Their Regulatory Challenges and IOSCO's Response* was based upon the 2010 and 2011 Seminar Training Programs in Madrid. More than 70 delegates from 21 different jurisdictions attended the seminar.

The Mobile STP for the Africa / Middle-East region was hosted by the Securities and Commodities Authority of the United Arab Emirates, in Dubai, from 10-12 December 2012. The first two days of the seminar were on *Investor Protection: Investor Education, Corporate Governance and Sanctions for Market Abuse*, and the third day was dedicated to *Islamic Finance*. The program was attended by almost 50 delegates from 15 different jurisdictions.

The Financial Markets Authority of New Zealand hosted the Mobile STP for the Asia-Pacific region in Auckland, from 11-12 March 2013. This seminar was largely based upon the program of the 2012 STP in Madrid on *Corporate Governance Issues Related to Securities Firms and Sanctions for Market Abuse*. Fifty delegates from 15 jurisdictions participated in the program.

While the mobile STPs are based on the STP held annually in Madrid, IOSCO staff work closely with the host jurisdiction to make certain the program is tailored to the specific interests and needs of the region. Additionally, regional speakers and other new

speakers are incorporated into the mobile STPs as well as speakers from the annual STP. Consequently, IOSCO is steadily building a speaker data base that enhances its education and training capabilities.

Enforcement Training Program

The IOSCO Education & Training Team, together with the Dubai Financial Services Authority (DFSA) and the Securities and Commodities Authority of the United Arab Emirates (SCA), organized a four-day Enforcement Training Program from 4-7 March 2013 in Dubai, UAE.

This very practical program for enforcement staff of IOSCO's securities regulators members had the format of a workshop and was hosted at the premises of the SCA in Dubai. Forty participants from 25 different jurisdictions were divided into five working groups with one experienced mentor assigned to each group. Each mentor used a case study that he or she had developed and which was used by the attendees to develop and fully execute different phases of the planning and conducting of an investigation, i.e., from the assessment of allegations to the investigation planning and the interviewing of witnesses and suspects. Due to the success and popularity of the program (maximum capacity was reached within a matter of days), IOSCO is considering replicating the program or aspects of the program in other regions, and/or including it as part of the Madrid STP.

Joint IOSCO / Financial Stability Institute (FSI) Seminar

The seventh edition of the joint IOSCO and FSI seminar took place at the FSI headquarters in Basel from 28 to 30 November 2012. The FSI is the training arm of the Bank for International Settlements, and this joint seminar successfully examines relevant cross-sectoral issues. The seminar on *Trading Book Issues and Market Infrastructure* emphasized the legal, regulatory, and compliance issues. Almost 60 bank supervisors and securities regulators from 34 jurisdictions attended the seminar.

IOSCO SROCC Training Seminar

Following the success of the four previous training seminars, the Self-Regulatory Organizations Consultative Committee (SROCC) conducted a three-day training seminar from 7 - 9 November 2012 in Istanbul, Turkey. The program covered the IOSCO Principles relating to Regulators, Secondary Markets and Market Intermediaries. The event was co-organized by IOSCO, ANBIMA (Brazilian Financial and Capital Markets Association), FINRA (Financial Industry Regulatory Authority) and TSPAKB (Association of Capital Market Intermediary Institutions of Turkey). In

its previous five editions, the program reached more than 400 delegates from over 80 regulatory entities in 57 different jurisdictions.

The 6th edition of the IOSCO SROCC Training Seminar will take place from 22 - 23 May 2013 in Toronto, Canada. This year's two-day program will cover the IOSCO Principles relating to Firm Supervision, Inspections and Enforcement. The agenda also includes panels on *High Frequency Trading*, *SME Finance* and *Ahead of the Curve* regulatory topics. The Seminar is co-organized by IOSCO, ANBIMA, FINRA, and IIROC (the Investment Industry Regulatory Organization of Canada).

The IOSCO & IFIE Investor Education Conference

The fourth joint IOSCO-International Forum for Investor Education (IFIE) Investor Education Conference was held in Seoul, Korea, from 20-22 May 2012. The theme of the conference hosted by the Korea Financial Investment Association (KOFIA) was *Implementing the Financial Capability and Investor Education Agenda: Protecting Investors in a Dynamic Environment*. The conference was composed of different panels, breakout sessions, and practical workshops covering themes such as *Working Together to Organize, Develop and Implement an Ongoing National Strategy for Financial Capability and Investor Literacy*; *Elements That Create Effective Financial Capability and Investor Literacy Programs – Overcoming Barriers to Achieve Success*; *Emerging Challenges in Financial Capability and Investor Literacy around the Globe*; and *How Do You Determine if an Investor Education Programme is a Success? Looking for Quantitative Measurements and Statistically Reliable Data*.

The upcoming fifth joint Investor Education Conference is based on the theme of *Delivering Dynamic Financial Capability and Investor Education Program - Changing Behavior Across Life Stages*. The event will be held from 20-21 June 2013 in Toronto, Canada, and will be hosted by the Investment Industry Regulatory Organization of Canada (IIROC).

EMC Training

The Emerging Markets Committee (EMC), as part of its 2011 EMC Conference in the Dominican Republic from 17-19 October, started to organize Market Development Workshops that are open to all IOSCO members. The four workshops in the Dominican Republic covered the following: *the implementation and practical application of the new IOSCO Principles and Methodology*; *the effective regulation and oversight of FMI's*; *developing the investor base in the Emerging Markets*; and *Systemic Risk in the Emerging Markets*.



Due to the success of the workshops, two were organized during the Annual Conference in Beijing, China, on 13 May 2012; one on *Developing the Institutional Investor Base* and the other on *Developing Corporate Bond Markets*. The workshops attracted over 100 participants.

During the 2012 EMC Conference in Chile from 19-21 November 2012, the following two workshops were organized: *Development of Derivatives Markets in EMs*

and *Developing Surveillance Capacity of Securities Regulators*. There was also a discussion on the *Recent Benchmark Manipulation Scandals and the Need for Deterrent Sanction Regimes*. The three sessions were attended by approximately 70 participants, who rated the sessions as useful and in line with expectations. They noted the sessions allowed them to exchange their views and experiences, as well as identify areas of improvement.

The 2013 EMC Conference in Panama of 21-23 May 2013 was also to feature two workshops on *Risk Based Supervision* and on *FMI's and Risk Management*.

Investor Education

Given that IOSCO members are showing growing interest in investor education, the Education and Training team is considering which programs and/or materials IOSCO might make available to meet this demand. In 2011/2012 the Education and Training team undertook an analysis of members' current investor education offerings on their websites, which showed that many members are providing outstanding and innovative programs, materials and creative solutions with respect to investor education. This study resulted in June 2012 in the internal publication of a report titled, *Investor Education: An Analysis of IOSCO Member Websites and Web-Based Information*.

Building upon this experience, IOSCO launched in May 2013 an Investor Education Gateway on its website, where IOSCO members can showcase and share with each other as well as the global community their work on investor education.

Developing a Comprehensive Strategy with Respect to Investor Protection and Education is one of the main objectives of the Education and Training Pillar of the proposed IOSCO Foundation. This objective entails organizing special IOSCO investor education programs; establishing strategic investor education partnerships that will advance IOSCO's own investor education initiative to the benefit of IOSCO members; and sharing investor education information, research and resources with IOSCO members.

On 3-4 February 2012 the OECD and the Securities and Exchange Board of India (SEBI) organized jointly an International Conference on Investor Education in Goa, India. The Secretariat presented IOSCO's work on investor education and, in particular, on what IOSCO members are offering with respect to investor education.

As part of the 2012 IOSCO meeting of the Africa/Middle-East Regional Committee (AMERC), an IOSCO Training Session on Investor Education was organized on 24 February 2012 in Mombasa, Kenya. Speakers from the IOSCO General Secretariat, the Capital Markets Authority (CMA) Uganda, the Securities Exchange Commission (SEC) Ghana, and the First Bank of Nigeria Capital spoke on the topic of investor education.

In conjunction with the 2012 meeting of the Council of Securities Regulators of the Americas and the Inter-

American Regional Committee (COSRA/IARC), IOSCO organized an Investor Education Panel on 29 October 2012 in Trinidad & Tobago. The Secretariat participated in the panel discussion on *Investor Education – A key factor in Capital Market Development*.

On 6 November 2012, IOSCO member websites were highlighted in the presentation *Child and Youth Financial Education and Inclusion in Europe and Central Asia* that was given at the Child & Youth Finance International (CYFI) Regional Meeting for Europe and Central Asia, held in Brussels, Belgium. IOSCO was asked to deliver the keynote speech at the European Fund and Asset Management Association (EFAMA) Investor Education Day, held on 7 November 2012 in Brussels, Belgium. IOSCO outlined its commitment to investor education and stressed that it is a priority.

Priorities on the horizon for the IOSCO team were also presented, including but not limited to, the following:

- > Investor Education Workshops; Investor Education Gateway / Resources at IOSCO for IOSCO members;
- > Continued Member Research, Assessment, and Assistance;
- > Forums to Share *Best Practices* and *Good Ideas*;
- > Analyze *what does the current statistically valid research show?*
- > Focus on *What Works and What Does Not Work...and what is the supporting evidence?*

Survey Analysis

In the first quarter of 2013, IOSCO carried out an online survey on E & T among all IOSCO members as a follow up to similar surveys in 2009 and 2011. Compared to previous surveys, the 2013 survey received the highest number of responses (69). The survey supports and confirms the very positive evaluations received on IOSCO's E&T programs. It also reflects strong agreement that E&T programs provide an international regulatory perspective, enable attendees to gain new knowledge, and bring them up to date regarding regulatory matters.

The survey offered 57 different topics concerning securities regulation and allowed respondents to indicate their level of interest in each topic on a scale of 1 to 7 with 7 indicating *very interested*. The following

topics received the strongest support¹ according to the 2013 survey:

- > Going Forward; Regulation and Supervision 77%;
- > Insider Trading Investigations 70%;
- > Market Manipulation 68%;
- > Ethics and Conflicts of Interest 67%;
- > Investor Education 66%;
- > Insider Trading (Litigation) 66%;
- > Investor Protection 65%;
- > Helping Investors Avoid Fraud 65%;
- > Conducting Regulatory Investigations 64%;
- > Inspections and
and
- > Transparency and Disclosure
in Financial Markets 61%.

Regarding IOSCO's Principles, these categories received the strongest support² according to the 2013 survey:

- > Market Intermediaries (Principles 29-32) 73%;
- > Enforcement (Principles 10-12) 67%;
- > The Regulator (Principles 1-8) 65%;
- > Cooperation in Regulation (Principles 13-15) 62%;
- > Collective Investment Schemes
(Principles 24-28) 54%;
- > Secondary Markets (Principles 33-38) 51%;
- > Issuers (Principles 16 -18) 49%;
- > Self-Regulation (Principle 9)
and
- > Auditors, Credit Rating Agencies and Other
Information Providers (Principles 19-23) 39%.

Several conclusions regarding the direction of IOSCO E&T can be drawn from this comparative data:

- > The topic *Going Forward; Regulation and Supervision* received one of the highest ratings of any survey topic in the past five years;
- > IOSCO members continue to show an increasing desire for IOSCO to offer a certificate program for regulators (such as the one outlined in the IOSCO Foundation proposal). (76%, 79% and now 81%, respectively, for 2009, 2011 and 2013);
- > There continues to be a huge interest in receiving education and training with respect to *Insider Trading Investigations* and *Market Manipulation*;

- > There seems to be growing interest in the fourth highest ranked topic in 2013, *Ethics and Conflicts of Interest*. This topic was not ranked in the top ten in either 2009 or 2011;
- > The similar topics of *Investor Education*, *Investor Protection*, and *Helping Investors Avoid Fraud* ranked, respectively, fifth, tied for seventh, and then continued to advance in popularity; and

Given this data, IOSCO members indicated the following as their top three areas of IOSCO Principles: Market Intermediaries (73%), Enforcement (67%), and The Regulator (65%). This data is generally consistent with prior years.

IOSCO Foundation Proposal

As part of the proposal to create an IOSCO Foundation, IOSCO E&T is proposing to expand the education and training opportunities available to IOSCO members. With additional funding, IOSCO will be able to broaden the offer of E&T programs for securities regulators. In addition to increasing the quantity and quality of current E&T seminars and events, the objective will be to develop and launch the following new training programs that include, but are not limited to, the following:

- > *Investor Protection and Education*;
- > *International Exchange Program for Securities Regulators*;
- > *Global Certificate Program for Securities Regulators*; and
- > *Enhanced Education and Training*.

It also will be better placed to disseminate E&T programs and materials through video streaming and a new electronic library of top education and training materials, modules and programs. This library will expand the reach and impact of IOSCO's E&T efforts, and will particularly benefit emerging market members.

¹ Strongest support is defined as the total percentage of respondents who marked the topic as a "7" or a "6" on a 7 point scale with 7 reflecting the highest level of interest.

² Ibid



Communications Strategy:

Strengthening the IOSCO Brand

IOSCO took significant steps in the year to strengthen its communications strategy. Importance was given to boosting both internal and external communications, while efforts were made to engage a wide range of stakeholders.

The communication strategy is aimed at promoting and supporting IOSCO's core mission and objectives regarding financial stability, investor and consumer protection, market integrity and efficiency, and the mitigation of systemic risk. IOSCO also seeks to explain its work to stakeholders and the press, giving IOSCO more visibility and a greater sense of public relevance.

To improve the internal flow of information, IOSCO launched a weekly bulletin for members in April 2012. By providing a weekly update on events, IOSCO seeks to keep its members abreast of recent activities and inform the internal policy debates. Having members well versed on the breadth of IOSCO's work contributes to more fruitful discussion of issues and efficient exchange of information. To update members of Board decisions, IOSCO Board Chair Greg Medcraft and Secretary General David Wright offered webcast briefings of Board meetings, when feasible.

In the year, committees also made better use of the IOSCO website to communicate among each other and with stakeholders. Projects involving the web page included:

- > Development of the IFRS (International Financial Reporting Standards) portal;
- > Launch of the Investor Education Gateway;
- > Enhancement of the section on Research and Development;
- > Development of online surveys for research, task forces and committees;
- > Preparation of the online version of the IOSCO Assessment Methodology; and
- > Unveiling of the Asia/Pacific Regional Committee Enforcement Data Base

In parallel, IOSCO designed and programmed its new website, which it plans to launch by end 2013.

For the first time, IOSCO is now issuing press releases after round table discussions with industry, and Committee and Task Force meetings-- particularly when decisions are taken or the debate is especially insightful. In the year, journalists showed particular interest in IOSCO's work on benchmarks, securitization, money market funds, and margin requirements for non-centrally cleared derivatives, as well as its efforts to promote the MMoU for cooperation and the exchange of information. The Emerging Markets Committee's growing role within IOSCO also was covered widely by the press. Going forward, IOSCO's preliminary work on cross-border regulatory issues, behavioral economics and cyber-crime, to name just a few new work streams, is already attracting the interest of stakeholders and the press.

Given that IOSCO's work load increased substantially in the year—in large part due to mandates from the G20 and the Financial Stability Board-- the more active communications policy led to a sharp increase in press coverage. Moreover, IOSCO policy reports have become increasingly timely and forward-looking, increasing their relevance to members, stakeholders and the media. The number of articles with references to IOSCO more than doubled in 2012 from a year earlier. In January-February 2013, the number doubled from the same period in 2012, and was up more than threefold from the same period in 2011, according to statistics from the media monitoring service Meltwater.

IOSCO's leadership played an active role in promoting the IOSCO brand worldwide. Both the incoming and outgoing Board Chairs, and the new Secretary General and his deputy, participated on numerous public panels, official hearings and debates, and delivered speeches on IOSCO work at conferences worldwide. They also met with dozens of journalists over the year to explain IOSCO's objectives, work and forward-looking strategy.

General Information

The International Organization of Securities Commissions (IOSCO) is an international association of securities regulators that was formed in 1983. Its General Secretariat is based in Madrid, Spain.

The objectives of IOSCO's members are:

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

- > nine ordinary members elected by the Presidents Committee.

The Executive Committee had two specialized working committees; the Technical Committee and the Emerging Market Committee. The Technical Committee was made up of 18 agencies that regulated some of the world's larger, more developed and internationalized markets. Its objective was to review major regulatory issues related to international securities and futures transactions and to coordinate practical responses to these concerns.

At its Annual Conference in May 2012, IOSCO constituted a new Board that absorbed the functions of the Executive Committee, the Technical Committee and the Emerging Markets Committee Advisory Board. The Emerging Market Committee (EMC) will continue as a separate body.

Structure of IOSCO

The Presidents Committee, which meets once a year during the IOSCO Annual Conference, is attended by ordinary and associate members, as well as by affiliate members in some specific cases.

Until May 2012, the Executive Committee acted as the executive body of the organization and was composed of the following 19 members:

- > The Chairmen of the Technical and Emerging Markets Committees;
- > The Chairmen of the four Regional Committees – Africa/Middle-East Regional Committee; the Asia-Pacific Regional Committee; the European Regional Committee and the Inter-American Regional Committee;
- > One ordinary member elected by each Regional Committee from among the ordinary members of that region; and

The new streamlined governance structure and decision-making process are aimed at making IOSCO more effective and inclusive, helping position the organization for a larger role in shaping the global framework for securities market regulation.

The new Board is composed of 32 members who serve a two-year term ending in 2014. Members include all former Technical Committee members, representatives from each of IOSCO's four Regional Committees and the Chair and Vice-Chair of the Emerging Markets Committee who together will ensure an appropriate balance and mix of members.

The criteria for membership of the Board are under review with a view to instating a permanent structure by the IOSCO Annual Meeting in Rio de Janeiro in September 2014. An Emerging Market Committee Task Force was formed during the 2011 Annual Conference to define the role of the future Emerging Markets Committee within the new IOSCO structure.

Greg Medcraft, the Chairman of the Australian Securities & Investment Commission (ASIC), took over as Chair at the Board meeting in Sydney in March 2013. He will hold that position until the meeting of the Board at the IOSCO Annual Conference in September 2014. The Board in Sydney also elected Ontario Securities Commission Chairman Howard I. Wetston. Ranjit Ajit Singh, Chairman of the Securities Commission Malaysia, is Chairman of the EMC and is a Vice Chair of the IOSCO Board. Bert Chanetsa, Deputy Executive Officer Capital Markets, Financial Services Board, South Africa, is the Vice Chair of the EMC.

The Emerging Markets Committee (EMC) continues to promote the development and improved efficiency of emerging securities and futures markets by establishing principles and minimum standards, preparing training programs for members' staff and facilitating the exchange of information as well as the transfer of technology and expertise. EMC members account for 75% of IOSCO membership and include some of the world's fastest growing economies. With ten of its members forming part of the G20, the Emerging Market Committee is playing an increasingly important role within IOSCO.

IOSCO also has four regional committees, which meet to discuss problems specific to their respective regions and jurisdictions:

- > Africa/Middle-East Regional Committee;
- > Asia-Pacific Regional Committee;
- > European Regional Committee; and
- > Inter-American Regional Committee.

Self-Regulatory Organizations (SROs) are affiliate members of IOSCO and members of the SRO Consultative

Committee. IOSCO recognizes the importance of maintaining a close dialogue with the SROs and the international organizations that make up its associate and affiliate membership, and of ensuring that their input into IOSCO's policy development work is sought and encouraged.

Annual Conferences

IOSCO's members meet every year at its Annual Conference to discuss important issues related to global securities markets regulation. Event and registration information can be found at www.iosco.org.

Membership Categories and Criteria

Categories

IOSCO has three categories of membership that are assigned according to the approach of each member to securities markets regulation. This structure enables all members to participate in IOSCO's debate on securities market issues.

The three categories are:

- > Ordinary;
- > Associate; and
- > Affiliate.

The annual membership fee from 2012 onwards is as shown in the following chart:

Annual financial contribution structure in Euros from 2012:

GDP ₁	NATIONAL PER CAPITA INCOME ¹		
	1. Low Income	2. Middle Income	3. High Income
A. Low GDP	€ 12,500	€ 15,000	€ 16,000
B. Medium GDP	€ 15,000	€ 16,000	€ 21,000
C. High GDP	€ 16,000	€ 21,000	€ 30,000

¹ The categorization of jurisdictions will remain unchanged through the life of this Strategic Direction (2012-2015)

Previous Annual Conferences

Caracas, Venezuela	September 1974*	Montreal, Quebec	September 1996
Lima, Peru	January 1976 *		
Buenos Aires, Argentina	November 1977*	Taipei, Chinese Taipei	November 1997
Queretaro, Mexico	November 1978*	Nairobi, Kenya	September 1998
Rio de Janeiro, Brazil	November 1979*	Lisbon, Portugal	May 1999
Montreal, Quebec	September 1980*	Sydney, Australia	May 2000
Washington, D.C., United States of America	May 1982*	Stockholm, Sweden	June 2001
Quito, Ecuador	April 1983	Istanbul, Turkey	May 2002
Toronto, Ontario	August 1984	Seoul, Korea	May 2003
Cartagena, Colombia	June 1985	Amman, Jordan	May 2004
Paris, France	July 1986	Colombo, Sri Lanka	April 2005
Rio de Janeiro, Brazil	September 1987	Hong Kong, China	June 2006
Melbourne, Australia	November 1988	Mumbai, India	May 2007
Venice, Italy	September 1989	Paris, France	May 2008
Santiago, Chile	November 1990	Tel Aviv, Israel	June 2009
Washington, D.C., United States of America	September 1991	Montreal, Quebec	June 2010
London, United Kingdom	October 1992	Cape Town, South Africa	April 2011
Mexico City, Mexico	October 1993	Beijing, China	May 2012
Tokyo, Japan	October 1994	Luxembourg	Sep 2013
Paris, France	July 1995	Rio de Janeiro	Sep 2014

* Conferences of the Inter-American Conference of Securities Commissions, the forerunner of IOSCO.



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Independent Auditors' Report on the Financial Statements

To the Members of the
International Organization of Securities Commissions (IOSCO)

We have audited the accompanying financial statements of the International Organization of Securities Commissions (hereinafter the "Organization"), which comprise the statement of financial position as at 31 December 2012, and the statement of comprehensive income, the statement of changes in members' funds and the statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amount and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risks assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the International Organization of Securities Commissions (IOSCO) as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

DELOITTE, S.L.



Rodrigo Díaz
Madrid, April 1, 2013

Financial Statements

Statement of Comprehensive Income

Year ended December 31, 2012

Notes 1 and 2

	2012	2011
REVENUE		
Contributions from members (Note 3)	4,120,585	2,638,863
Annual conferences (Note 3)	120,000	120,000
Exchange gain	-	-
Other (Note 3)	2,215	593
Total revenue	4,242,800	2,759,456
EXPENSES		
Salaries and employee benefits (Note 4)	1,741,298	1,552,354
Rental and maintenance (Note 11)	97,147	116,883
Travelling	409,620	354,712
Office supplies	37,314	34,341
Organization and follow up of meetings	97,863	61,486
Telecommunications	109,297	102,682
Delivery and communication	10,916	12,748
Printing and Annual Report	24,358	28,429
Computer	145,260	135,783
Professional fees	85,959	47,262
Educational programs	74,427	95,030
Miscellaneous	40,092	70,701
Exchange loss	2,291	1,908
Depreciation of capital assets (Note 6)	40,973	37,741
Total expenses	2,916,815	2,652,060
Excess of revenue over expenses before tax (expenses over revenue)	1,325,985	107,396
Taxation (note 9)	-	-
Excess of revenue over expenses net of tax (expenses over revenue)	1,325,985	107,396
Other comprehensive income net of tax	-	-
Total comprehensive income for the year net of tax	1,325,985	107,396

(in Euros)

The accompanying notes are an integral part of the financial statements.

Statement Of Financial Position

As at December 31, 2012

Notes 1 and 2

	2012	2011
ASSETS		
Current assets		
Cash (Note 5)	2,677,780	1,197,472
Accounts receivable (Note 7)	122,029	99,227
Prepaid expenses	87,501	36,552
	2,887,310	1,333,251
Capital assets (Note 6)	76,048	80,430
Total assets	2,963,358	1,413,681
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 7)	391,863	206,916
Contributions received in advance (Note 3)	120,000	81,255
Total liabilities	511,863	288,171
MEMBERS' FUNDS		
Excess of revenue over expenses net of tax for the period (expenses over revenue)	1,325,985	107,396
Unrestricted members' funds	1,125,510	1,018,114
Total members' funds	2,451,495	1,125,510
Total liabilities and members' funds	2,963,358	1,413,681

(in Euros)

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Members' Funds

Year ended December 31, 2012

Notes 1 and 2

		2012	2011
	UNRESTRICTED	TOTAL	TOTAL
Balance, beginning of year	1,125,510	1,125,510	1,018,114
Excess of revenue over expenses net of tax (expenses over revenue)	1,325,985	1,325,985	107,396
Balance, end of year	2,451,495	2,451,495	1,125,510

(in Euros)

The accompanying notes are an integral part of the financial statements.

Statement of Cash Flows

Year ended December 31, 2012

Notes 1 and 2

	2012	2011
OPERATING ACTIVITIES		
Total comprehensive income for the year net of tax	1,325,985	107,396
Depreciation of capital assets (Note 6)	40,973	37,741
Decrease (increase) in working capital items (Note 8)	149,941	(146,520)
Net cash generated	1,516,899	(1,383)
INVESTING ACTIVITIES		
Term deposits transactions	-	-
Capital expenditures (Note 6)	(36,591)	(51,098)
Net cash used	(36,591)	(51,098)
Net increase (decrease) in cash and cash equivalents	1,480,308	(52,481)
Cash and cash equivalents, beginning of year	1,197,472	1,249,953
Cash and cash equivalents, end of year	2,677,780	1,197,472
CASH AND CASH EQUIVALENTS		
Cash (Note 5)	2,677,780	1,197,472
	2,677,780	1,197,472

(in Euros)

The accompanying notes are an integral part of the financial statements.

1 Governing Statutes and Purpose of the Organization

The non-profit organization IOSCO (hereinafter “the Organization”), incorporated under a private act in Canada (L.Q. 1987, Chapter 143) sanctioned by the Quebec National Assembly, is an association of securities regulatory organizations. During 2001 the Organization changed its domicile to Madrid (Spain). It is recognized by the Spanish Government by means of the Third Additional Disposition of Law 55/1999.

IOSCO is the international standard setter for securities regulation. Its current membership comprises regulatory bodies from over one hundred jurisdictions who have day-to-day responsibility for securities regulation and the administration of securities laws.

2 Accounting policies

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards.

The financial statements are prepared in Euros which is the organization’s functional currency.

These financial statements were authorised for issue by the Secretary General of the Organization on March 31, 2013.

Measurement bases

The financial statements have been prepared on an accrual basis with all assets and liabilities, valued at amortized costs.

Accounting estimates

The preparation of these financial statements in conformity with International Financial Reporting Standards requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates are based on management’s best knowledge of current events and actions that the Organization may undertake in the future. Actuals results may differ from these estimates.

Revenue and cost recognition

Member contributions are deferred when prepaid and recognised as income only upon accrual and receipt. Revenue received in advance represents prepaid members contributions.

Operating costs are recognized as an expense when incurred.

Capital assets

Capital assets are recorded at cost less accumulated depreciation. Any impairment in the net recoverable amount as compared to the net carrying amount is recognized immediately.

Gains and losses on disposal are included in the Statement of Comprehensive Income.

Capital assets are depreciated over their estimated useful lives according to the following methods and annual rates:

	Methods	Rates
Furniture and fixtures	Straight-line	20%
Computer equipment		
Computers and Software	Straight-line	33%
Servers	Straight-line	25%

Foreign currency translation

The Organization's functional and presentational currency is Euros. Foreign currency transactions are accounted for in Euros at the rates of exchange prevailing at the transaction date. Exchange gains or losses on settlement of balances are recognized in the Statement of Comprehensive Incomes when they arise.

Monetary assets and liabilities denominated in foreign currencies are translated to Euros at the foreign exchange at the end of the reporting period. Foreign exchange differences arising on translation are included in the Statement of Comprehensive Income.

3 Revenue

Contributions from members include membership fees collected in the year, corresponding to contributions due for the reporting period and previous reporting periods and contributions from members applying for membership. The Presidents Committee has agreed, with effect from 1 January 2012, to change the membership fee structure, considering that members from jurisdictions with higher GDP and higher income per capita afford a higher fee than members from jurisdictions with lower GDP and income per capita. Following these changes, the change to fee structure resulted in increased revenue.

Annual conference revenue represents the contribution from the member hosting the Annual Conference.

Other revenue is comprised basically by sales of IOSCO documents and other revenues generated by capital assets.

4 Salaries and employee benefits. Secondment program

The average staff of the General Secretariat in 2012 is composed of 24 staff, including 16 permanent staff and 8 secondees, being 13 staff members women and 11 men.

	2012	2011
Gross salaries	1,428,533	1,247,750
Spanish social security	191,174	167,090
Other social benefits	121,591	137,714
Total salaries and employee benefits	1,741,298	1,552,354

(in Euros)

In 2012 the Organization had the benefit of seconded staff from the Bundesanstalt für Finanzdienstleistungsaufsicht of Germany (BaFin), the Israel Securities Authority (ISA), the Financial Services Agency of Japan (JFSA), the Financial Supervisory Service of Korea (FSS), the Ontario Securities Commission (OSC), the Romanian National Securities Commission (CNVM), the Financial Services Board of South Africa (FSB), the Spanish Comisión Nacional del Mercado de Valores (CNMV), the Capital Markets Board of Turkey (CMB), the Financial Services Authority of United Kingdom (FSA) and the Financial Industry Regulatory Authority of the United States (FINRA).

The normal mode of operation of the secondment program is for the Organization to enter into a trilateral agreement between the sponsoring member and the secondee, offering the secondee an employment contract in Spain.

Secondment program revenue includes contributions from members sponsoring staff to join the General Secretariat temporarily. These contributions generally cover a portion of the seconded staff's salary costs paid through the Organization. Revenue is recognized based on the terms, amounts and payment schedule determined by the Secondment agreement between the Organization and the sponsoring member. The amounts payable to the secondee as part of the respective employment contract are recognized and accrued as an expense. In order to enhance comparability,

the amounts corresponding to the secondment program, both revenue and expenditure have been removed from the Statement of Comprehensive Income and any differences between revenue and subsidized costs arising from social security adjustments are recognized on a net basis in the income statement in the salaries heading, as is shown in the chart below:

	2012	2011
Revenue associated to the Secondment Program	307,277	348,392
Subsidized expenditure associated to the Secondment Program	(310,387)	(347,097)
Net as at December 31, 2012	(3,110)	1,295

(in Euros)

In addition, as part of the secondment agreements and in compliance with the IOSCO Secondment Program, IOSCO assumes certain costs, which are also recognized in the income statement in the salaries heading, related to the moving and relocation of the secondees from their country of origin to Madrid, amounting to € 124,158 (€ 72,823 for the year 2011).

There is a minority of cases where, as distinct from the above trilateral agreement, the sponsoring member continues to take care directly of all the employment, administrative and financial requirements with regard to the secondee, where IOSCO does not have any direct formal employment link with the secondee and does not hold any financial obligation, and in consequence revenue and the related expenditure has not been accrued.

5 Cash

Cash is held in current bank accounts denominated in Euros in Barclays Bank, S.A.U., an EU entity with an upper medium credit rating. Cash balances include a small portion held in US dollar amounts. There are no restrictions for the use of cash.

6 Capital Assets

	Furniture and fixtures	Computer equipment	2012 Total
At the lower of recoverable value and cost			
Balance, beginning of year	42,450	573,634	616,084
Additions	17,035	19,556	36,591
Disposals	-	-	-
Balance, end of year	59,485	593,190	652,675
Accumulated depreciation			
Balance, beginning of year	(21,834)	(513,820)	(535,654)
Depreciation	(7,990)	(32,983)	(40,973)
Disposals	-	-	-
Balance, end of year	(29,824)	(546,803)	(576,627)
Net as at December 31, 2012	29,661	46,387	76,048

(in Euros)

	Furniture and fixtures	Computer equipment	2011 Total
At the lower of recoverable value and cost			
Balance, beginning of year	26,411	538,575	564,986
Additions	16,039	35,059	51,098
Disposals	-	-	-
Balance, end of year	42,450	573,634	616,084
Accumulated depreciation			
Balance, beginning of year	(15,080)	(482,833)	(497,913)
Depreciation	(6,754)	(30,987)	(37,741)
Disposals	-	-	-
Balance, end of year	(21,834)	(513,820)	(535,654)
Net as at December 31, 2011	20,616	59,814	80,430

(in Euros)

7 Accounts receivable and accounts payable and accrued liabilities

a) Accounts receivable

	2012	2011
Secondment contributions	112,039	84,722
Other	9,990	14,505
Total Accounts receivable	122,029	99,227

(in Euros)

b) Accounts payable and accrued liabilities

	2012	2011
Professional services	43,549	10,620
Occupancy	85,000	78,000
Spanish Taxes (employee's income tax withheld) and Social Security	77,542	56,098
Contractual staff commitments	43,041	-
Travelling	74,655	21,121
Other	68,076	41,077
Total Accounts payable and accrued liabilities	391,863	206,916

(in Euros)

8 Information Included in the Statement of Cash Flows

The increases (decreases) in working capital items are detailed as follows:

	2012	2011
Accounts receivable	22,802	62,798
Prepaid expenses	50,949	9,570
Accounts payable and accrued liabilities	(184,947)	120,407
Contributions received in advance	(38,745)	(46,255)
Increases (decreases) in working capital	(149,941)	146,520

(in Euros)

9 Taxation

On 29 December, 1999, the Spanish Parliament passed legislation (Law 55/1999), to exempt the Organization from Spanish income tax. On 23 November 2011, IOSCO signed a Headquarters Agreement with the Kingdom of Spain upgrading and improving the current legal and tax framework for IOSCO in Spain.

10 Government Assistance

As part of the localization agreement in Madrid, IOSCO receives from the Spanish Authorities the right to use a 56% share of the 12 Oquendo premises free of charge, exclusive of non-structural maintenance expenses (electricity, water, elevator maintenance, etc) up to a maximum of € 91,605 for the year 2012 (€ 87,561 for the year 2011). This amount is adjusted annually by the corresponding Consumer Price Index. The total for non-structural maintenance expenses has not yet exceeded the above mentioned cap. The estimated revenue in kind associated to the 56% share to use free of charge of the 12 Oquendo premises is of 400,000 Euros

The agreement between the Comisión Nacional del Mercado de Valores (CNMV) and IOSCO set out that the CNMV will be responsible for meeting the costs of security and maintenance of security systems in the IOSCO premises; insuring the premises; and municipal and local property taxes. These revenues in kind have been estimated at € 85,185 for 2012 (€ 51,535 in 2011).

11 Rental and Maintenance

	2012	2011
Estimated Spanish Authorities' charges for non structural maintenance costs	85,000	78,000
Other external maintenance services	12,147	38,883
Total rental and maintenance	97,147	116,883

(in Euros)

12 Subsequent Events

In the opinion of the management there are no significant events that need to be reported.



OICU-IOSCO

**International Organization
of Securities Commissions**

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