Activities of IOSCO's Working Committees in the Year

The IOSCO Board was constituted at the 2012 Annual Meeting in Beijing. It subsumed 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 sought to become more effective at achieving its objectives of protecting investors, maintaining fair, efficient and transparent markets, and of identifying and mitigating systemic risks.

The streamlined governance structure has made the organization more efficient and inclusive, enabling it to convey better its messages to stakeholders and the wider public.

The IOSCO Board reviews the regulatory issues facing international securities markets and coordinates practical responses to those concerns. The work is carried out by eight IOSCO policy 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;**
- > **Credit Rating Agencies;**
- > **Commodity Derivatives Markets; and**
- > **Retail Investors**

The Board also oversees the activities of the Growth and Emerging Markets Committee (GEM, formerly known as the Emerging Market Committee). The GEM Committee 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 GEM and the former Technical Committee, to create the policy committees. These committees all share the common goal of ensuring that markets are fair, efficient and transparent.

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 2013 with examining relevant developments in the financial markets. They included the following:

- > The Board-level Task Force on Financial Benchmarks
- > Task Force on OTC Derivatives Regulation (OTCDTF)
- > Task Force on Unregulated Markets and Products (TFUMP)
- > Task Force on Unregulated Financial Entities (TFUFE)
- > Task Force on Cross-Border Regulation
- > Task Force on Long-Term Financing
- > BCBS-IOSCO Working Group on Margining Requirements

The IOSCO Work Program

Committee 1 on Issuer Accounting, Auditing and Disclosure.

Committee Chair:
Julie A. Erhardt (US SEC)

Committee 1 is devoted to improving the development of accounting and auditing standards, and enhancing the quality and transparency of the financial information

that investors receive from listed companies and financial institutions. IOSCO considers the accuracy, integrity and comparability of financial accounts to be essential for maintaining investor confidence and reestablishing a stable international financial system.

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), and observing the IFRS Interpretations Committee (IFRIC), 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. The mission of the foundation, through its IASB standard-setting body, is to develop a single set of high quality global accounting standards. Committee 1 contributes to the standard-setting work of IASB through its involvement in the IASB work streams and its comment letters. 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.

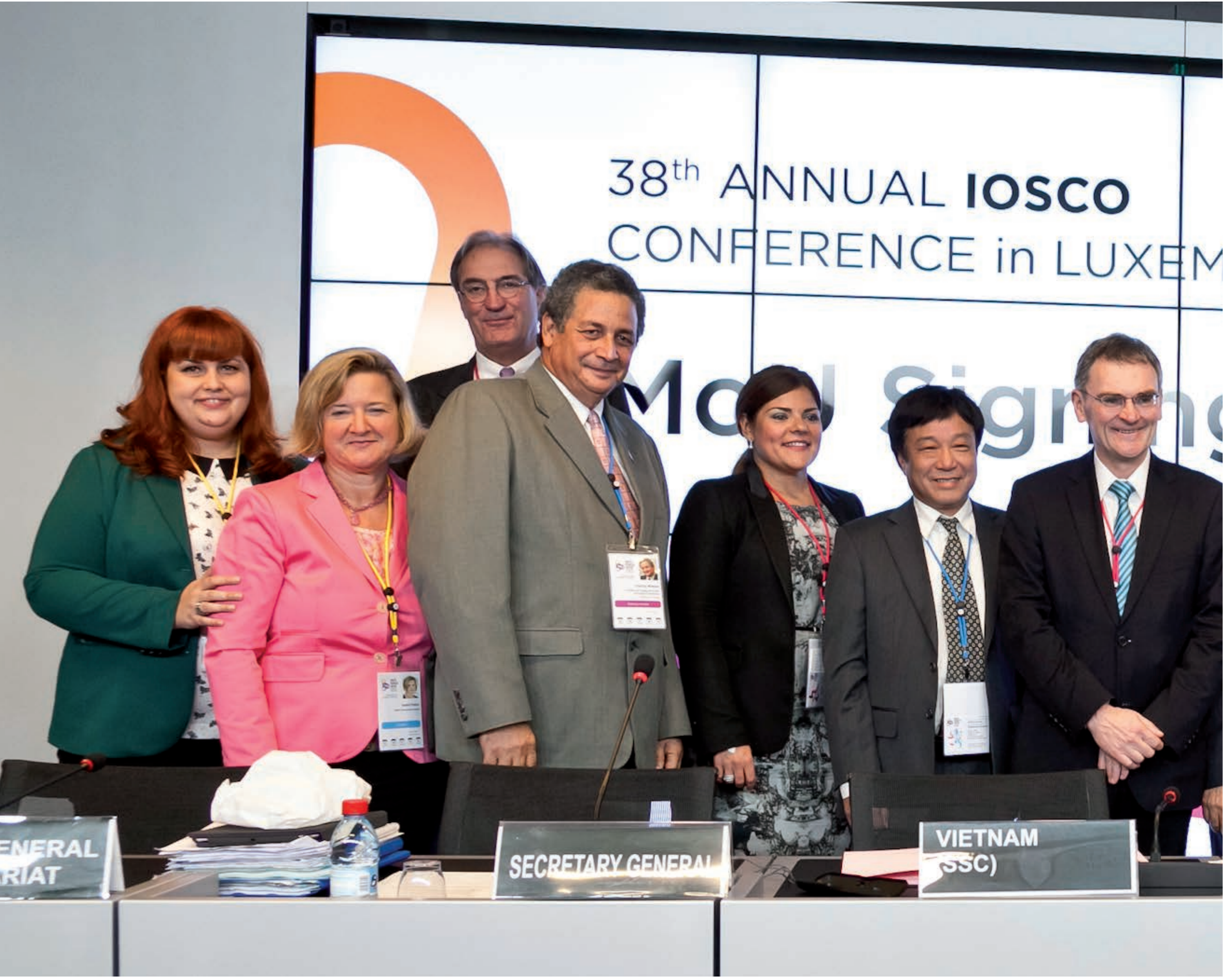
IOSCO believes that international audit standards contribute to high quality audits, and are therefore essential for ensuring the transparency and efficiency of securities markets. To that end, Committee 1 monitors the activities of two of the International Federation of Accountant´s standard setting bodies: the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA). It also provides input to the IOSCO members who participate in their respective Consultative Advisory Groups (CAGs).

In response to a string of corporate scandals 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). Together, 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.

IOSCO is an official observer at the International Forum of International Audit Regulators (IFIAR) Plenary meetings. Committee 1 represents IOSCO in this capacity and provides updates to, and liaises with, IFIAR on relevant IOSCO work streams.

The IFRS Foundation / IOSCO IFRS Statement of Protocols

In September 2013, IOSCO and the IFRS Foundation agreed on a set of protocols under which the two organizations would deepen their cooperation in support of their shared commitment to the highest global standards of financial reporting. The Statement of Protocols built upon more than a decade of cooperation between IOSCO and the IFRS Foundation, and identifies four additional areas for mutually supportive work. Under the protocols, the two organizations will deepen their cooperation in both the development and implementation of IFRS on a globally consistent basis.



In March 2012, the Financial Stability Board called on IOSCO to undertake new work streams related to external audits of issuer financial statements. As a result, in 2013 Committee 1 worked on the following three 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 mandate 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 calls on IOSCO to report on the contingency plans prepared by audit firms in the case of a possible disruption in their delivery of audit services to public companies.

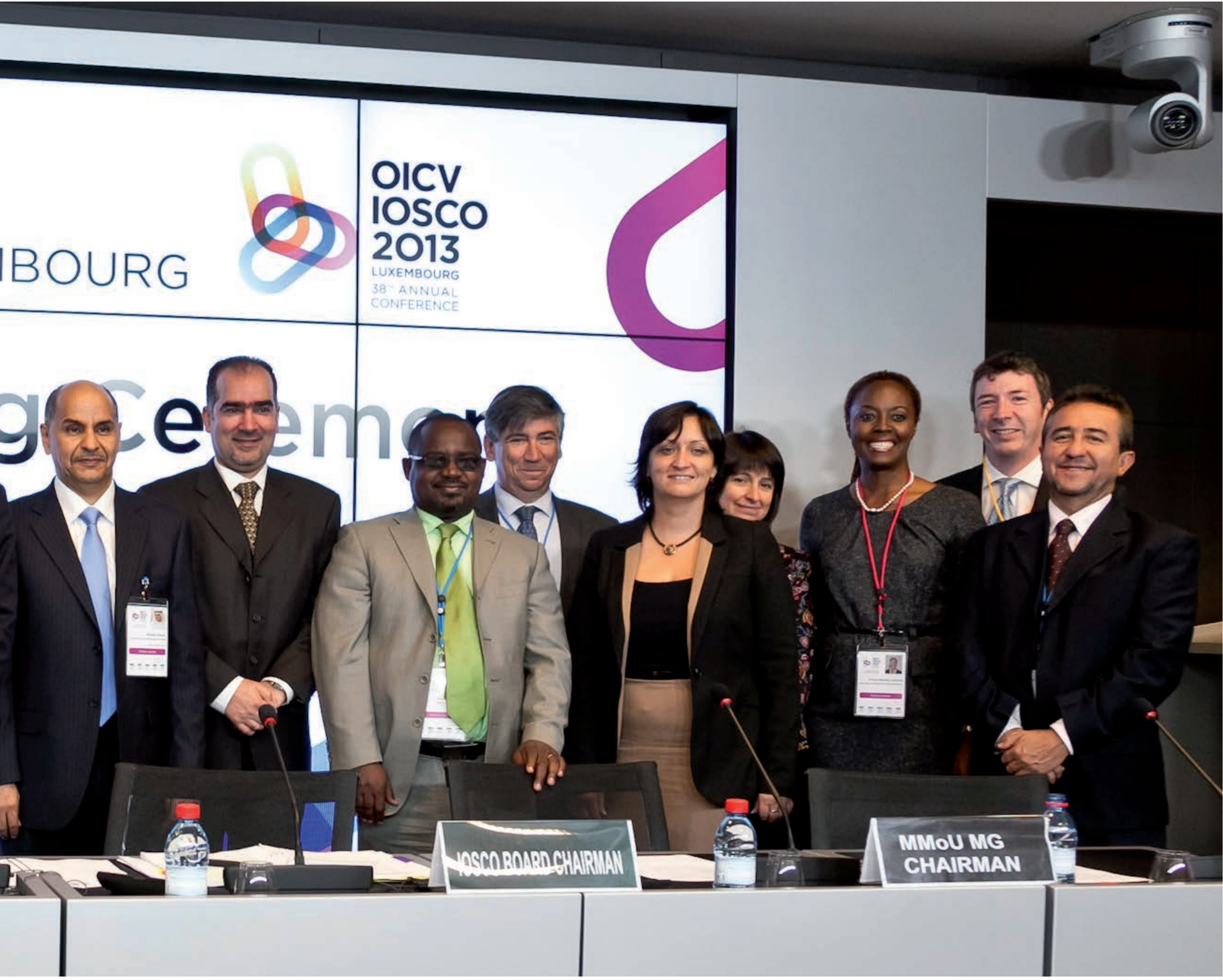
Committee 2 on Regulation of Secondary Markets.

Committee Chair:
Susanne Bergsträsser (Germany, BaFin)
Committee Vice Chair:
Norman Muller (South Africa, FSB)

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

At its summit meeting in 2010, the G20 requested that IOSCO *develop recommendations to promote markets´ integrity and efficiency to mitigate the risks posed to the financial system by the latest technological developments*.

During 2013, Committee 2 published two policy reports responding to the G20 request:



1) Developing Tools for Addressing 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 to deal with the challenges they face, including 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.

2) Issues Raised by Changes in Market Structure

In December 2013, Committee 2 published the final report on *Regulatory Issues Raised by Changes in Market Structure*, which makes four recommendations aimed at promoting market liquidity and efficiency, price transparency, and investors´ execution quality in a fragmented environment.

Committee 2 concluded that securities regulators should strike 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.

The final report outlined the current state of play in market structures in most IOSCO jurisdictions. It recommended that regulators should monitor the impact of fragmentation on the following:

- market integrity and efficiency
- availability and timeliness of information
- order handling rules and best execution
- access to liquidity

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

In December 2013, Committee 2 published the final report *Trading Fee Models and their Impact on Trading Behavior*, which provides a comprehensive overview of trading fees and trading fee models around the globe and how they influence trading behavior.

In recent years, securities regulators in many jurisdictions have introduced regulatory frameworks that foster competition among trading venues. Advances in technology also have played a critical role in enhancing competition among trading venues by reducing the cost of establishing new trading venues and providing access to new pools of liquidity.

Trading is now fragmented with multiple venues trading the same instruments and competing, both within a jurisdiction and across jurisdictions where securities are cross-listed. Competition has provided investors and intermediaries with greater choice as to where and how they trade. These venues compete with trading systems and technology, market models and trading fees, including trading fee structures.

The data collected did not provide enough clear evidence for IOSCO to draw definitive conclusions about the impact of trading fees or trading fee models on trading behaviors. But the process gave ISOCO insight into the structure of the fee models used globally and the standards used often by regulators when performing oversight.

Committee 2 received two new mandates in 2013:

Robustness of Electronic Trading Systems and Markets; Committee 2 will examine the regulatory and trading venue requirements and policies that are in place in different jurisdictions to mitigate the risks associated with electronic trading and to diminish trading disruptions.

Business Continuity and Recovery for Trading Venues; The purpose and scope of the project is to identify the measures and arrangements in place at trading venues to restore their *critical* functions should a disruption occur.

Committee 3 on Regulation of Market Intermediaries.

Committee Chair:
Stephen Po (Hong Kong SFC)
Committee Vice Chair:
Hasnat Ahmad (SEC Pakistan)

The financial crisis underscored how financial innovation and the growing complexity of financial products helped conceal from customers the associated investment risks. The collapse of Lehman Brothers in mid-September 2008 raised serious questions about the extent to which intermediaries failed to assess the suitability of structured investment products.

To 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 related to the distribution by intermediaries of complex financial products to retail and non-retail investors.

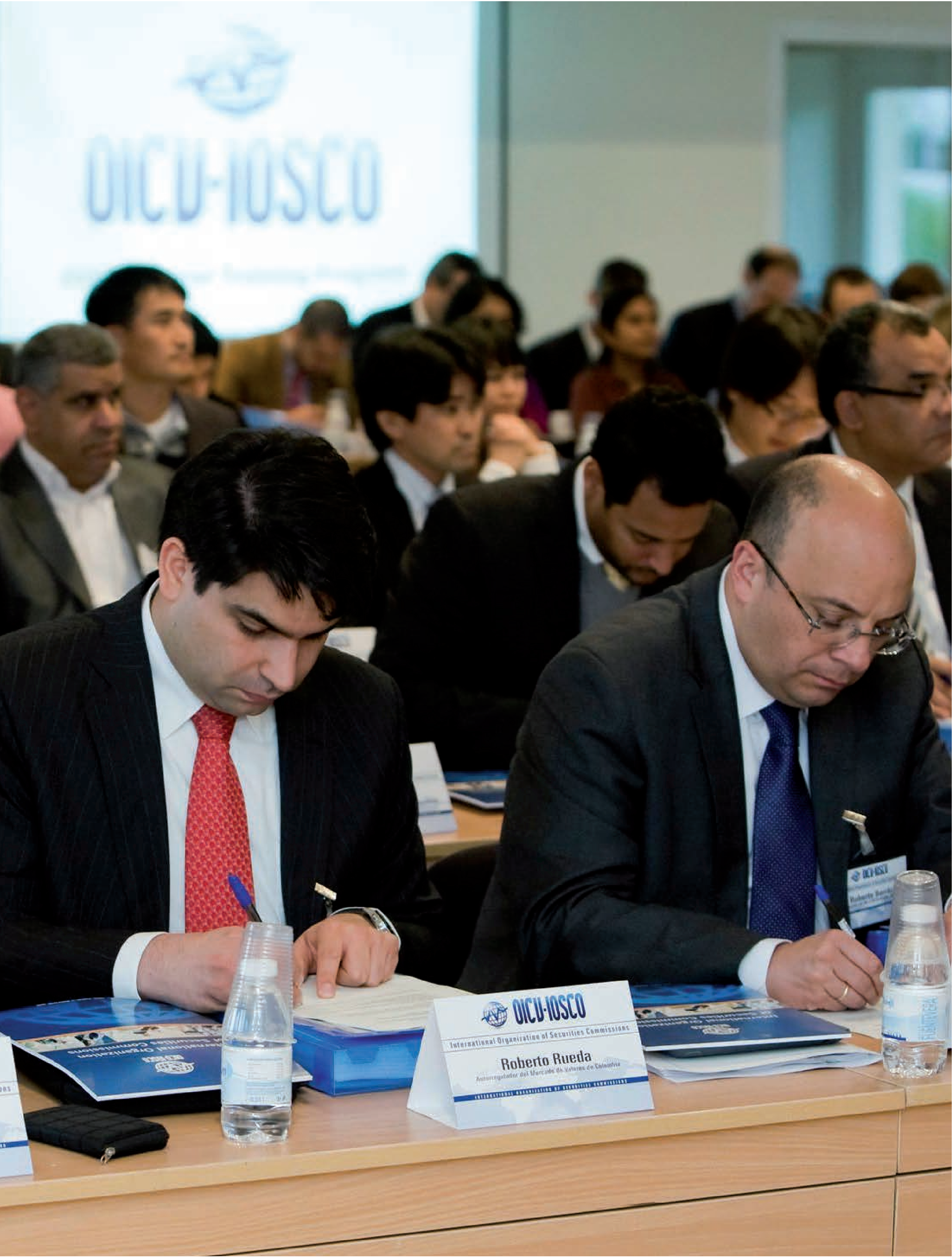
The report forms part of IOSCO's ongoing drive to promote investor protection. It introduces nine principles covering areas related to the distribution of complex financial products by intermediaries, including the classification of clients, disclosure requirements, and compliance function and internal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

The demise of Lehman Brothers also highlighted the importance of client asset protection regimes. The bank´s 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.

To address this issue, Committee 3 published in February 2013 the consultation report *Recommendations Regarding the Protection of Client Assets.* The report provides guidance to regulators aimed at enhancing their supervision of intermediaries holding client assets by clarifying the roles of the intermediary and the regulator in protecting those assets. In January 2014, Committee 3 published the final report, which includes eight recommendations aimed at helping regulators improve the supervision of intermediaries holding client assets.

Proposed Methodologies to identify systemically important non-bank financial entities

The Financial Stability Board and IOSCO collaborated in 2013 to develop assessment methodologies for identifying global, non-bank systemically important financial institutions (SIFIs) in the securities sector. As part of this work Committee 3 identified a set


OICU-IOSCO
OICU·IOSCO
International Organization of Securities Commissions
Roberto Rueda
Autorregulador del Mercado de Valores de Colombia

of indicators for systemically important non-bank market intermediaries; the Committees on Investment Management and the Task Force on Unregulated Financial Entities (TFUE) worked on developing a methodology aimed at assessing the systemic significance of investment funds.

In developing those methodologies, the FSB and IOSCO based their work on the following principles:

(i) The overarching objective in developing the methodologies is to identify non- bank, non-insurer financial entities whose distress or disorderly failure, due to their size, complexity, systemic interconnectedness or lack of substitutability, would cause significant disruption to the global financial system and economic activity across jurisdictions.

(ii) The general framework for the methodologies seeks to be broadly consistent with methodologies for identifying global systemically important banks (G-SIBs) and insurers (G-SIIs), while adequately reflecting the specificities of both market intermediaries and the asset management sector.

In January 2014, the FSB and IOSCO issued for public consultation the report *Assessment Methodologies for Identifying Non-bank Non-insurer Global Systemically Important Financial Institutions* (NBNI G-SIFIs).

Global Capital Standard

Committee 3 contributed in 2013 to a project of the Joint Forum - comprising IOSCO, the Basel Committee on Banking Supervision and the International Association of Insurance Supervisors - to create a uniform global capital standard within the banking, insurance and securities industries. The aim is to eliminate gaps and inconsistencies between prudential frameworks, thus reducing regulatory arbitrage and competitive inequalities across jurisdictions, and to facilitate the convergence of prudential standards over the long term.

The capital adequacy standards should be designed to enable securities firms to absorb losses and wind down their businesses without generating losses for their customers or the customers of other broker-dealers, and without disrupting the orderly functioning of the financial markets.

In March 2014, Committee 3 published for public consultation *A Comparison and Analysis of Prudential Standards in the Securities Sector,* which highlights similarities, differences and inconsistencies among the different prudential frameworks employed by securities commissions in different jurisdictions. IOSCO´s objective is to update its 1989 Report on Capital Adequacy Standards for Securities Firms.

Other Mandates

During the year, Committee 3 prepared surveys for its work on three different mandates: *Business Continuity and Recovery Planning*, *Social Media* and *Automated Advice.*

- The mandate on Business Continuity builds upon the 2006 Joint Forum report on *High level principles for business continuity,* as well as on recent events challenging business continuity measures, with the aim of developing a range of useful tools to tackle the issue.

- The mandate on social media was proposed in response to technological developments that affect how market intermediaries interact with their customers.

- The mandate on *Automated Advice* responded to concern over how the use of automated advice might be changing the way intermediaries interact with customers.

Another mandate on crowd-funding was proposed by C3, which began work in 2013 on a survey to determine the current and proposed regulatory initiatives regarding crowd-funding in different jurisdictions.

Committee 4 on Enforcement and Exchange of Information

Committee Chair:
Georgina Philippou (UK FCA)
Committee Vice Chair:
Errol Hoopman (Dubai FSA)

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

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

IOSCO believes that enforcement cooperation among regulators is essential to attain effective global regulation and robust securities markets around the globe.
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 (MMoU), 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. It 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

In 2010, IOSCO asked all its ordinary and associate members with primary responsibility for securities regulation in their jurisdictions to become signatories by 1 January 2013.

In February 2013, IOSCO published the list of members who failed to meet the deadline for signing the MMoU (at that time 30), as a way to encourage non-signatory members to take the necessary measures for signing. IOSCO adopted in September 2013 the first of a series of measures that gradually restrict the opportunities of non-signatory members to influence key IOSCO decisions due to the limited support they can provide IOSCO´s enforcement efforts. The measures also were aimed at encouraging national governments and parliaments to adopt the measures that support securities commissions in their efforts to comply with the MMoU.

The following are the graduated additional measures:

- *From 30 September 2013*: All outstanding non-signatory members will be restricted from nominating candidates from their organization for election or appointment to leadership positions.
- *From 31 March 2014*: All outstanding non-signatory members in leadership positions will be asked to step down.
- *From 30 June 2014*: The participation of non-signatory members in IOSCO Policy Committees will be suspended.
- *From 30 September 2014*: The voting rights of all remaining non-signatory members will be suspended.

At the same time, IOSCO reiterated its commitment to provide technical assistance and political support to those non-signatories who require it in order to sign the MMoU. During the course of 2013, eight authorities became new signatories to the MMoU: The Reserve Bank of Malawi was approved to sign the MMoU in February 2013, before publication of the list. It became a signatory in March.

Following publication of the list, four other members became signatories by the end of 2013 and were removed from the list:

- *Securities and Exchange Commission, Trinidad and Tobago (June 2013)*
- *State Securities Commission, Vietnam (September 2013)*
- *Securities and Exchange Commission, Bangladesh (December 2013)*
- *Financial Services Commission, Gibraltar (December 2013)*

In addition, 3 authorities became new members of IOSCO and signed the MMoU in 2013:

> Financial and Capital Market Commission, Latvia (February 2013)

> Qatar Financial Markets Authority, Qatar (February 2013)

> Institut Nacional Andorra de Finances, Andorra (September 2013)

These additions brought to 99 the total number of signatories to the MMoU as of 31 December 2013 out of a total of 125 eligible IOSCO members. Of the 26 Members on the IOSCO list of non-signatories at that time, most of them were committed to addressing the issues that prevented them from complying with all the MMoU requirements. The Financial Services Authority of Indonesia became the 100th signatory in January 2014.

The increase in the number of signatories in recent years 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, to 2088 in 2011 and to 2,374 in 2012.

In 2013 the Screening Group started a new project entitled Enhanced MMoU to *consider if a further standard beyond the existing IOSCO MMOU should be developed, taking into account developments in markets and supervisory and enforcement practice*s. To foster greater collaboration among signatories, IOSCO believes it is an opportune moment to consider raising the bar in terms of baseline MMoU standards, without compromising the principles that have made the MMoU such a valuable tool for IOSCO and its members. The IOSCO Board decided to initiate a discussion on how best to identify these new enhanced baseline standards for the MMoU and how best to implement them. An Enhanced MMoU Working Group was created to that effect.

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, and the effectiveness of regulators to eradicate and punish egregious misconduct has been called into question.

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 for this work envisions, where appropriate, the development of a set of founding principles upon which credible deterrence frameworks could be built.

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 5 on Investment Management

Committee Chair:
Natasha Cazenave (France, AMF)
Committee Vice Chair:
Xiaodong Tang (China, CSRC)

Principles for the regulation of Exchange Traded Funds (ETFs)

Committee 5 published in June 2013 the final report *Principles for the regulation of Exchange Traded Funds (ETFs)*, which provides a comprehensive set of nine principles intended to guide the regulation of ETFs and foster industry best practices in relation to these products. The dynamic growth in ETFs attracted the attention of regulators concerned about the potential impact of ETFs on investors and on the broader marketplace. Moreover, much of that growth was spurred by the ETFs´ move to diversify into new and innovative products.

The nine principles address issues related to ETF classification and disclosure to investors (section 1), as well as issues related to the structuring of ETFs (including principles for the management of conflicts of interest and of counterparty risks).

Collective Investment Schemes (CIS)

Committee 5 continued its work on collective investment schemes (CIS) during 2013.

In March, IOSCO 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 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.

In May, Committee 5 issued the final report *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.

Proposed Methodologies to identify systemically important non-bank financial entities in the securities area

Committee 5 worked with the Financial Stability Board and Committee 3 on the Regulation of Market Intermediaries to develop an assessment methodology for identifying global, non-bank systemically important asset management entities in the securities sector. (See the section on the Committee 3 on the Regulation of Market Intermediaries).

Other Mandates

At its February 2013 meeting in Madrid, Committee 5 agreed to design a framework for the liquidation of all types of investment funds, not just systemically important funds, with a view to ensuring the fair treatment of investors. The committee plans in 2014 to undertake a review of IOSCO´s 2004 *Report on Elements of International Regulatory Standards on Fees and Expenses of Investment Funds,* which deals with issues such as disclosure of fees and expenses to the investor, transaction costs and performance fees. The objective of the review is to identify standards that need to be updated to reflect both market and regulatory changes. Other projects for 2014 include reviewing the best practices for custody institutions, with particular regard to the safe-keeping of client assets, which has come under greater scrutiny following the 2007-2008 financial crisis and several corporate collapses.

The work on custodian institutions is aimed at complementing Committee 5's work on the protection of client assets. In February 2013, it published *Recommendations Regarding the Protection of Client Assets* for public consultation. The final report, issued in January 2014, 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.

Committee 6 on Credit Rating Agencies
Committee Chair:
Randall Roy (US SEC)
Committee Vice Chair:
Tien-Mu Huang (Chinese Taipei SFB)

In 2013, Committee 6 analyzed the provisions of *The Code of Conduct Fundamentals for Credit Rating Agencies* and recommended revising the CRA Code, which was first published in 2004 when few jurisdictions had laws governing the activities of CRAs.

The IOSCO CRA Code is intended to offer a set of robust, practical measures as a guide and a framework for CRAs' efforts to protect the integrity of the rating process. It seeks to ensure that issuers and users of credit ratings, including investors, are treated fairly, and to safeguard the confidential material information they receive from issuers.

The CRA Code was later revised in 2008 after the outbreak of the global financial crisis to include significant disclosure provisions that addressed concerns about the role of CRAs and their management of potential conflicts of interest.

In 2012, IOSCO agreed to revise the IOSCO CRA Code to reflect that CRAs are now supervised by regional and national authorities. The goal is to create an updated IOSCO CRA Code that works in harmony with CRA registration and oversight programs, and that continues to operate as the international standard for CRA self-governance. Committee 6 members and several large and small CRAs located in various jurisdictions responded to surveys for the project. A Committee 6 working group analyzed each provision of the IOSCO CRA Code in light of the survey responses.

The Board published in January 2014 the Consultation Report *Code of Conduct Fundamentals for Credit Rating Agencies*, which proposes significant revisions and updates to the current IOSCO code of conduct for CRAs.

Supervisory Colleges for Credit Rating Agencies,

The wide geographic dispersion of internationally active CRA affiliates poses a challenge to supervisors, each of whose perspective is often limited to the CRA activities in each of their jurisdictions.

To address this issue, IOSCO issued in July 2013 a final report on *Supervisory Colleges for Credit Rating Agencies.* The report recommends establishing supervisory colleges for internationally active CRAs, and provides preliminary guidelines on how to constitute and operate them. The aim of a CRA college is to enhance the effectiveness of a supervisor's risk assessment and oversight of internationally active CRAs by facilitating information exchange and cooperation among them. The first Supervisory Colleges were established in November 2013.

Committee 7 on Commodity Derivatives Markets
Committee co-Chair:
Sarah Josephson (US, CFTC)
Committee co-Chair:
David Lawton (UK, FCA)

Principles for Oil Price Reporting Agencies

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

The final report was the culmination of work that began in November 2010, when the G20 requested a report on how the oil spot market prices are assessed by PRAs. The mandate responded to growing concerns that the way oil prices were set and published made them vulnerable to manipulation in both physical and derivatives markets. The report was prepared by Committee 7, in collaboration with the International Energy Forum (IEF), International Energy Agency (IEA) and the Organization of Petroleum Exporting Countries (OPEC).

The final report called on the PRAs to implement the principles by October 2013. It also stipulated that IOSCO was to review implementation of the PRA Principles by June 2014. To that end, C7 prepared a progress report for the G20 meeting in September 2013 based on a self-assessment questionnaire completed by the PRAs. The

responses indicated the PRAs had made a significant effort and devoted material resources to the implementation of the principles. Committee 7 sent out another questionnaire to interested parties in December 2013 aimed at gathering further information on how PRAs are meeting the principles. In 2014, IOSCO plans to draw on the conclusions of external audits and stakeholder responses to the questionnaire to complete the final report on the state of implementation, which will be submitted to the G20 Summit in November 2014.

Further Evaluation of IOSCO Principles for Commodity Derivatives Markets

Following the publication of the IOSCO *Principles for the Regulation of Commodity Derivatives Markets* (commodity derivatives principles)[1] in September 2011, IOSCO carried out an implementation review of these principles, which was published in October 2012[2] in response to the request of the G20 leaders in June 2012 at the Los Cabos Summit.

Subsequently, the Finance Ministers' Moscow Summit Declaration in February 2013 and the G20 Leaders' Summit Declaration in St Petersburg in September 2013 called for monitoring, on a regular basis, of the proper implementation of the commodity derivatives principles.

In 2014, IOSCO plans to make an implementation review of these principles through a survey and report back to the G20 Summit in November 2014.

The Impact of Storage Infrastructures on Derivatives Market Pricing

In September 2013, the IOSCO Board handed Committee 7 a mandate to examine the role of storage infrastructure on maintaining the integrity of the price formation process of physically delivered commodities, on regulated derivatives markets of IOSCO members.

In 2014, the Committee 7 Storage Sub-Committee is expected to develop a questionnaire that will be circulated to the industry with a press release. An update will be provided to the IOSCO Board summarizing key points from the questionnaire, followed by a full report at the end of 2014.

Committee 8 on Retail Investors

Committee Chair:
Howard Wetston (Ontario, OSC)
Committee Vice Chair:
Leonardo Pereira (Brazil, CVM)

Established in June 2013, the Committee 8 on Retail Investors has a primary mandate to conduct IOSCO's policy work on retail investor education and financial literacy; its secondary mandate is to advise the IOSCO Board on emerging retail investor protection matters and to conduct investor protection policy work as directed by the Board. Committee 8 seeks to bring investors' perspective and cognitive capabilities to the Board's attention to ensure they are taken into account.

First work-stream – developing a strategic framework

During its inaugural conference call on 29 July 2013, Committee 8 agreed that as a first step it would develop a strategic framework to guide IOSCO's investor education and financial literacy agenda going forward. This first mandate on the Strategic Framework for Investor Education and Financial Literacy was approved by the Board by written procedure on 29 November 2013.

The purpose of the project is to establish the strategic direction of IOSCO's investor education and financial literacy efforts. The deliverable will be a framework document that:

> describes IOSCO's niche (relative to other agencies) with respect to investor education and financial literacy for retail investors;

> identifies initial topic areas for future work streams that will help retail investors improve their comprehension skills and facilitate investor protection; and

> identifies insights from behavioral studies and research on how investors use information and make decisions for consideration in the development of investor education and financial literacy programs and delivery mechanisms.

The framework document will conclude with a section setting out current practices of effective investor education and financial literacy programs as identified by Committee 8 members.

The goal is to finalize the framework in spring 2014.

Future work-streams

During the 27-28 January 2014 meeting, Committee 8 members shared several ideas for new projects or work streams under Committee 8´s primary mandate on investor education and financial literacy.

A small working group was created to discuss future work streams to advance the committee's secondary mandate of emerging investor protection matters.

1 http://www.iosco.org/library/pubdocs/pdf/IOSCOPD358.pdf
2 http://www.iosco.org/library/pubdocs/pdf/IOSCOPD393.pdf

Task Forces

Board Level Task Force on Financial Market Benchmarks

Task Force co-Chair:
Gary Gensler (US, CFTC)
Task Force co-Chair:
Martin Wheatley (UK, FCA)

Background and mandate

The recent investigations into attempted manipulation of benchmarks brought the issue of benchmark integrity squarely into the regulatory spotlight. 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. The Task Force was co-chaired in 2013 by Martin Wheatley of the UK Financial Conduct Authority and Gary Gensler of the US Commodity Futures Trading Commission.

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 in London attended by 60 different stakeholder groups. Additional regional and bilateral stakeholder engagement was also held.

The Task Force prepared a near final set of principles that reflected industry feedback and the views of Task Force members. These near final principles were published in April 2013 for a second-round consultation period of one month.

The final report *Principles for Financial Benchmarks* was published on 17 July and then submitted to the G-20 meeting in September 2013. The IOSCO principles have been endorsed by the G20 and FSB as the global standards in financial benchmarks.

Structure and scope of the principles

The report included 19 principles on:

> Governance: to protect the integrity of the Benchmark determination process and to address conflicts of interest;

> Benchmark quality: to promote the quality and integrity of Benchmark determinations through the application of design factors;

> Quality of the methodology: to promote the quality and integrity of methodologies by setting out minimum information that should be addressed within a methodology. These principles also call for credible transition policies in case a benchmark may cease to exist due to market structure change; and

> Accountability mechanisms: to establish complaints processes, documentation requirements and audit reviews.

The principles provide a framework of standards that might be met in different ways, depending on the specificities of each benchmark. In addition to a set of high level principles, the framework offers a subset of more detailed principles for benchmarks having specific risks arising from their reliance on submissions and/or their ownership structure.

In September 2013, the FSB Official Sector Steering Group (OSSG) asked IOSCO to carry out an implementation review of LIBOR, EURIBOR and TIBOR against the IOSCO Principles. IOSCO constituted a Review Team in early October 2013 under the leadership of the UK FCA, the Australian ASIC and the US CFTC to conduct the review work.

In 2014, IOSCO will provide a report on the implementation review of LIBOR, EURIBOR and TIBOR to the FSB OSSG, which will finally be submitted to the G20 summit in November 2014.

Liaison and cooperation with other bodies

The Taskforce has collaborated with other related international initiatives, including the European Commission's consultation on the regulation of indices, ESMA's consultation on benchmark setting processes and, the BIS Economic Consultative Committee's work on reference rate practices. It also draws on the work conducted by IOSCO Committee 7 on oil price reporting agencies, and codes of practice developed by the industry.

Task Force on OTC Derivatives Regulation

Task Force co-Chairs:
Kevin Fine (Ontario, OSC)
Sujit Prasad (India, SEBI)
Brian Bussey (US SEC)
Warren Gorlick (US CFTC)
Tom Springbett (UK FCA)

In a March 2013 report to the IOSCO Board, the Task Force on OTC Derivatives highlighted the importance of determining whether the new rules on OTC derivatives achieve their attended effect and, if so, to disseminate the best practices.

The Task Force began work on a report in the third quarter of 2013 that analyzes the potential impact of post-trade transparency on the Credit Default Swap (CDS) market. The project entailed conducting a survey of market participants who use publicly available OTC derivatives transaction data. It also required soliciting input from CDS market participants to gauge how post-trade public transparency in the CDS market may affect the market and activities of its participants.

Task Force on Unregulated Markets and Products (TFUMP)

Task Force co-Chair:
Greg Medcraft (Australia, ASIC)
Task Force co-Chair:
Edouard Vieillefond (France, AMF)

Retail Structured Products

IOSCO published in December 2013 the final report on *Regulation of Retail Structured Products*, which provides a toolkit outlining regulatory options that securities regulators may find useful for regulating retail structured products. The toolkit was developed with the goal of enhancing investor protection in light of the growing enthusiasm of retail investors for these complex financial instruments.

Task Force on Unregulated Financial Entities (TFUFE)

Task Force co-Chair:
Nicoletta Giusto (Italy, CONSOB)
Task Force co-Chair:
Ana Duarte (UK FCA)

The Task Force published its second IOSCO hedge fund survey in October 2013. The aim of the IOSCO survey is to gather data from hedge fund managers and advisers about the markets in which they operate and their trading activities, leverage, funding and counterparty information. The exercise forms part of IOSCO's efforts to support the G20 initiative to mitigate risk associated with hedge fund trading and traditional opacity.

The survey entails gathering 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, is important for building a time series of data. This helps regulators detect trends in the global hedge fund industry and provides invaluable insight into any potential systemic risks that hedge funds may pose to the global financial system.

The survey also seeks to facilitate the exchange of consistent and comparable data among relevant regulators for the purpose of:

- facilitating international cooperation regarding possible systemic risks in this sector;
- providing a forum for the discussion of potential regulatory options if they are required; and
- gaining a better insight into the global hedge fund industry.

Going forward, IOSCO will continue to promote the collection of comparable hedge fund data among regulators with the aim of fostering an internationally consistent approach to measuring risks and improving data quality and reliability.

Task Force on Cross-Border Regulation

Task Force Chair:
Ashley Alder (Hong Kong, SFC)
Task Force Vice Chair:
Anne Héritier Lachat (Switzerland, FINMA)

In June 2013, IOSCO established The Task Force on Cross-Border Regulation to identify and consider cross border regulatory issues and tools. Cross-border regulatory tools describe the legal and supervisory tools used by a jurisdiction to regulate, oversee, or otherwise determine the extent of foreign entity activity in their jurisdiction. The mandate of the task force is to study, consider and describe cross-border regulatory tools with a view to:

- Developing a tool kit (and common nomenclature) about regulatory options for use by IOSCO members;
- Describing issues and experiences with the use of those techniques; and
- Laying a foundation, if appropriate, for developing guidance for a coordinated use of the tool kit – as part of an effort to promote the best interests of investors and foster fair and efficient global securities markets.

The work of the Task Force strengthens IOSCO's role as a forum for seeking solutions to cross-border regulatory issues affecting the securities markets. In 2013, the Task Force conducted a survey among members to gather information on their experiences, and the challenges and costs associated with the use of cross-border regulatory tools.

In 2014, the Task Force will hold three industry roundtables in Hong Kong, London and Washington DC to discuss some of the issues raised in the survey, learn about some of the specific challenges faced by industry due to cross-border regulation and gather general views on IOSCO's possible role in this space.

Based on the survey and industry roundtables, a consultation paper seeking further feedback from IOSCO members and industry will be drafted and issued in 2014. This work is aimed at helping mitigate the possible adverse effects of regulatory inconsistencies on cross border activity in securities markets.

Task Force on Long-Term Financing

Task Force co-Chair:
Howard Wetston (Ontario, OSC)
Task Force co-Chair:
Ranjit Ajit Singh (Malaysia, SC)

IOSCO created a Task Force on Long-Term Financing in December 2013, underscoring the important role capital markets play in supporting long-term financing in both emerging and developed economies. This work is particularly critical following the G20's recent call for measures to facilitate domestic capital market development and improve the intermediation of global savings for productive long-term investments.

Howard Wetston and Ranjit Ajit Singh, Vice Chairs of the IOSCO Board, are leading IOSCO's work in this area. The next IOSCO Annual Conference in Rio de Janeiro in September 2014 will be based on the theme *Market Based Financing for Global Economic Growth – A Forward Looking Approach.*

Joint Work

The Joint Forum

The Joint Forum was established under the aegis of IOSCO, the Basel Committee on Banking Supervision (BCBS) and the International Association of Insurance Supervisors to deal with issues common to the banking, securities and insurance sectors. Its membership is comprised of an equal number of senior bank, insurance and securities supervisors. The International Monetary Fund, the European Commission and the Financial Stability Institute have observer status.

In 2013, the Joint Forum published three reports:

> *Mortgage insurance: market structure, underwriting cycle and policy implications*, which examines the interaction of mortgage insurers with mortgage originators and underwriters. The report makes recommendations for regulators that seek to reduce the likelihood of mortgage insurance stress and failure in tail events.

> *Longevity risk transfer markets: market structure, growth drivers and impediments, and potential risks*, which examines the policy challenges posed by longevity risk - the risk of paying out on pensions and annuities longer than anticipated.

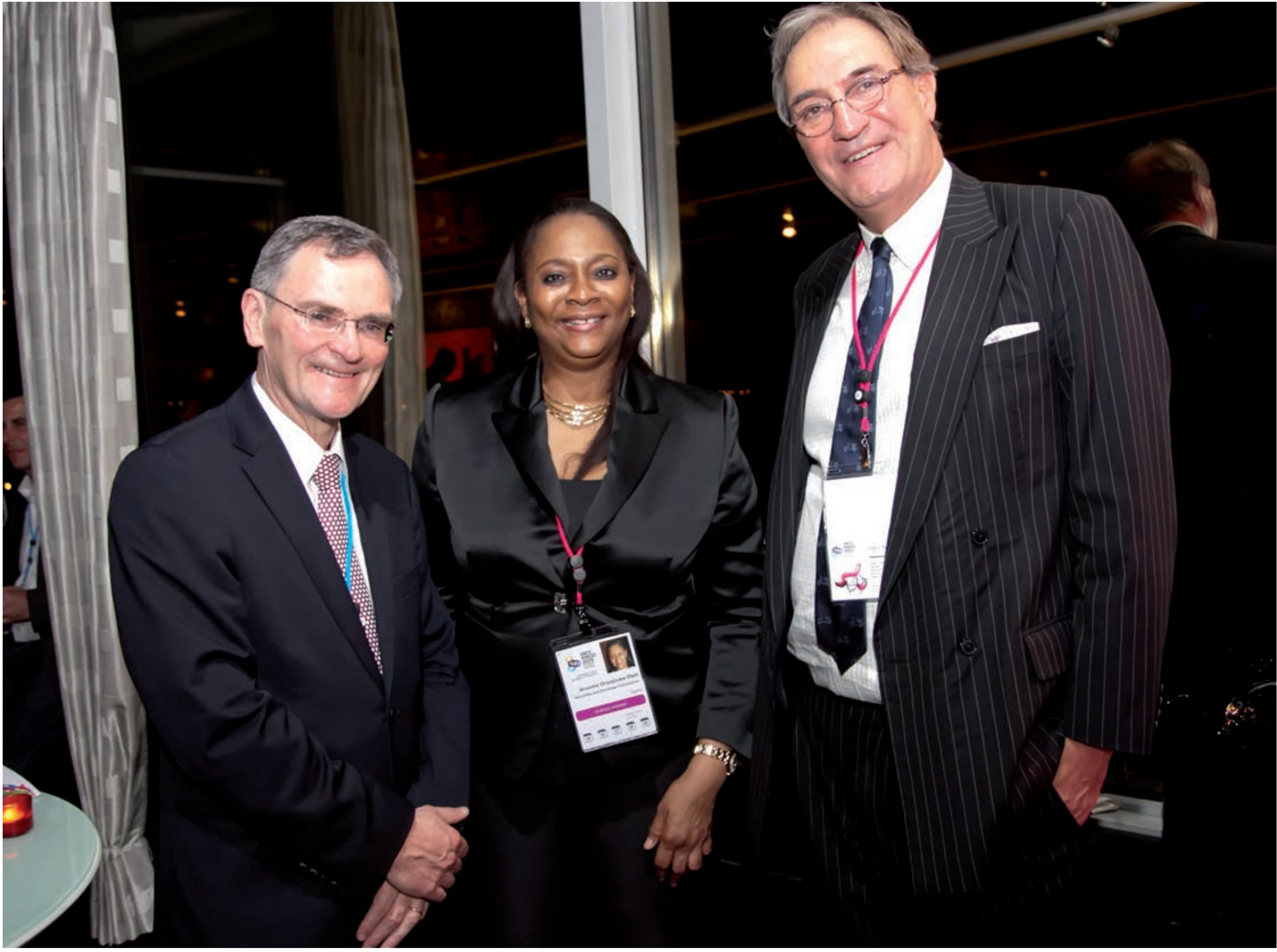
> *Point of Sale disclosure in the insurance, banking and securities sectors*, a consultative report that identifies and assesses differences and gaps in regulatory approaches to point of sale disclosure for investment and savings products across the insurance, banking and securities sectors. It proposes a number of recommendations to assist policymakers and supervisors in developing or modifying their disclosure regulations in this area.

BCBS-IOSCO Working Group on Margining Requirements

In 2011, the G20 Leaders agreed to add margin requirements on non-centrally cleared derivatives to the reform program and called upon the Basel Committee on Banking Supervision and IOSCO to develop, for consultation, consistent global standards for these margin requirements.

On 2 September 2013, the BCBS and IOSCO released the final framework for margin requirements for non-centrally cleared derivatives. Under the globally agreed standards, all financial firms and systemically important non-financial entities that engage in non-centrally cleared derivatives will have to exchange initial and variation margin commensurate with the counterparty risks arising from such transactions. The final requirements have been developed taking into account feedback from two rounds of consultations as well as a quantitative impact study that helped inform the policy deliberations.

Following the release of the final framework, the Basel Committee on Banking Supervision and IOSCO plan to set up a monitoring group to evaluate the margin requirements in 2014.



IOSCO and CPSS joint work

In April 2012, IOSCO and the Committee on Payment and Settlement Systems (CPSS) issued the *Principles for Financial Market Infrastructures* (PFMIs). Members of both organizations committed themselves to adopting the 24 principles and the five responsibilities included in the PFMIs, in line with G20 expectations.

Full, timely and consistent implementation of the PFMIs will be fundamental to ensuring the safety and soundness of key financial market infrastructures and to support the resilience of the global financial system. In addition, the PFMIs play an important part in the G20's mandate that stipulates all standardized OTC derivatives should be centrally cleared. Global central clearing requirements reinforce the importance of strong safeguards for, and consistent oversight of, derivatives central counterparties (CCPs).

In April 2013, IOSCO and CPSS began the process of monitoring the implementation of the PFMIs including both the PFMIs and the relevant responsibilities for authorities. The IOSCO-CPSS monitoring process is intended to promote the consistent implementation of the PFMIs. The monitoring process has three levels:

- Level 1: Whether jurisdictions have completed the process of adopting the legislation and other policies implementing the 24 Principles for FMIs and four of the five Responsibilities for authorities within the regulatory framework that applies to FMIs.

- Level 2: Whether the adopted measures are complete and consistent with the Principles and Responsibilities.

- Level 3: Whether there is consistency in the outcomes arising from the implementation of the Principles and Responsibilities.

In August 2013, CPSS-IOSCO published a report on the first Level 1 assessment of jurisdictions' progress in implementing the PFMIs: Updates to the Level 1 assessments will be conducted periodically to show progress made by jurisdictions in achieving full implementation.

CPSS-IOSCO published a consultative report on the *Recovery of financial market infrastructures* (FMIs) for public consultation on 12 August 2013, and received more than 30 comments. A final report is expected in 2014.