



Report from the Chair of the IOSCO Board

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This has been an important year for IOSCO. We have set in train and progressed a number of important policy, cooperation and engagement projects, several important organizational changes and a strategic review.

IOSCO has become more proactive and forward looking. I believe we are emerging as the key reference point for securities regulation. I see this reflected in our views being increasingly sought by the Financial Stability Board (FSB) and the G20, and in the growing importance of our guidance and standards. It is also reflected in the way we engage with industry and with our members – evident in the very successful Annual Conference ably hosted by the Luxembourg Commission de Surveillance du Secteur Financier (CSSF).

I want to thank IOSCO Secretary General David Wright and the General Secretariat for their important contribution to this journey. They have worked with the Management Team and the Board to help build a more inclusive and representative organization. They have helped initiate a number of new projects.

We have achieved a great deal. We have set important projects in motion. None of this would have been possible – or will be possible – without the commitment of Board members and their staff to dedicate time, resources and intellectual grunt to IOSCO. For this contribution IOSCO is enormously appreciative.

I want particularly to thank the Vice Chairs (Ranjit Ajit Singh, Chairman, Securities Commission, Malaysia, and Howard Wetston, Chair, Ontario Securities Commission), the Board and the Growth and Emerging Markets Steering Committee for their continuing support.

I want now to turn to what I see as our key achievements in the year 2013.

Identifying and responding to Emerging Risks

As an organization, we are thinking more about emerging risks and actively responding to what we see.

An important initiative has been the Emerging Risk Round Tables which are now embedded in our Board meetings and our Regional Committee meetings. These Round Tables are an opportunity for us to engage with industry, with academics and other experts to discuss and understand the risks and challenges we face as regulators and how we might respond – both at the national and global level. At the Board, round tables discussions have focused on cyber risks and cyber resilience, the role behavioral science can play in regulation, the opportunities and threats posed by social media and the particular issues faced by growth and emerging economies.

The round tables have challenged us to think outside the box, to think differently about our regulatory tool kit and to reflect on what IOSCO can do to bring this new thinking together at a global level.

Our work on cyber resilience, on retail investors, on long term investment and on capacity building in growth and emerging economies has produced innovative

responses to these challenges. The General Secretariat has played an important role in helping to shape these responses through thoughtful and insightful papers on cyber risk, crowd funding and – most recently – corporate bond markets.

The Securities Risk Outlook published in October 2013 – the first of what will be an annual exercise - was also a fine example of the role IOSCO can play in identifying emerging and systemic risks on our regulatory perimeter. The Outlook – developed by the General Secretariat's Research Unit and the Committee on Emerging Risks – collected and analyzed the thinking of our members, academics and other experts in an effort to identify the key issues on which policy makers and regulators need to reflect.

The processes and policies IOSCO members have developed to identify systemic and emerging risks were described in the October 2013 report of the IOSCO Assessment Committee on the implementation of Principles 6 and 7 on systemic risk and reviewing the regulatory perimeter. This report showed good progress in the implementation of these Principles and identified good practices for consideration by the broader IOSCO membership.

Policy Development

IOSCO has continued to develop standards and regulatory guidance in a number of areas. We are doing so with greater speed and dexterity.

Particular achievements have been our Principles for Financial Benchmarks (published in July 2013), our Principles for the regulation of Exchange Traded Funds (published in June 2013), our work on margin requirements for non-centrally cleared derivatives (published in September 2013) and our report on retail structured products (published in December 2013). We have also issued reports on the protection of client assets (February 2013 and January 2014), trading fee models and their impact on trading behavior (December 2013) and on the valuation of collective investment schemes (May 2013).

The Principles for Financial Benchmarks, developed under the leadership of Martin Wheatley, Chief Executive of the UK Financial Conduct Authority, and Gary Gensler, then Chairman of the US Commodity Futures Trading Commission, are a particular achievement. They were developed over a short nine-month period, were endorsed by both the FSB and the G20 and have been the basis for ongoing work

by the FSB on the future of financial benchmarks globally.

Since the last Annual Report we have initiated and made progress on a number of projects in key policy areas. We have before us a busy and ambitious work program.

Supporting the FSB and G20 Agenda

Our contribution to the FSB and G20 Agenda continues to account for a significant part of our current work. Australia's Presidency of the G20 in 2014 has set exacting deadlines for work in a number of areas:

- > OTC derivatives;
- > shadow banking; and
- > 'Too Big To Fail'.

We continue to contribute to each of these areas – with work on setting risk mitigation standards for non-centrally cleared derivatives, on assessing implementation of our recommendations and principles on securitization and money market funds and in developing methodologies to identify and regulate systemically important financial institutions (SIFIs) in our regulatory space.

The FSB G20 agenda is also slowly shifting, from addressing stability issues arising from the crisis towards a greater focus on economic growth. This move is driving important new IOSCO projects on:

- > long term finance; and
- > securitization, which is conducted jointly with the Basel Committee.

Other Policy Work

Outside of the FSB and G20 agenda, we are working on a number of important projects on key global issues. I want to touch on three of these.

The **first** is improving audit quality.

I have been concerned for some time about a deterioration in the quality of the work of auditors in my own country and globally. This is a concern shared by others on the Board.

In my view, improvements to audit quality are dependent on developing globally consistent approaches to both audit supervision and addressing the consequences of poor quality audits.

I want to thank the Netherlands Authority for the Financial Markets (AFM) for leading a Board level working group to determine how best to move ahead with these ideas.

The **second** is cyber-resilience.

This work builds on our roundtable on cybercrime at our annual conference in Luxembourg in September. That roundtable highlighted for me that the next '*black swan*' event may be a cyber-attack.

It also flagged a real opportunity for IOSCO to contribute to improving the resilience of the markets we regulate to cyber-attacks. A possible initiative is establishing a framework to manage cyber risks by:

- > **identifying** and **protecting** against cyber-risks; and
- > **detecting, responding to** and **recovering** from a cyber-attack.

I want to thank the Quebec Autorité des Marchés Financiers (AMF) for agreeing to coordinate the work of our policy committees in this area.

The **third** is cross border regulation.

In 2013 we established a Task Force led by the Securities and Futures Commission of Hong Kong (SFC) and supported by the Swiss Financial Market Supervisory Authority (FINMA) to develop a tool kit of measures to help jurisdictions regulate, the activities of foreign firms within their borders.

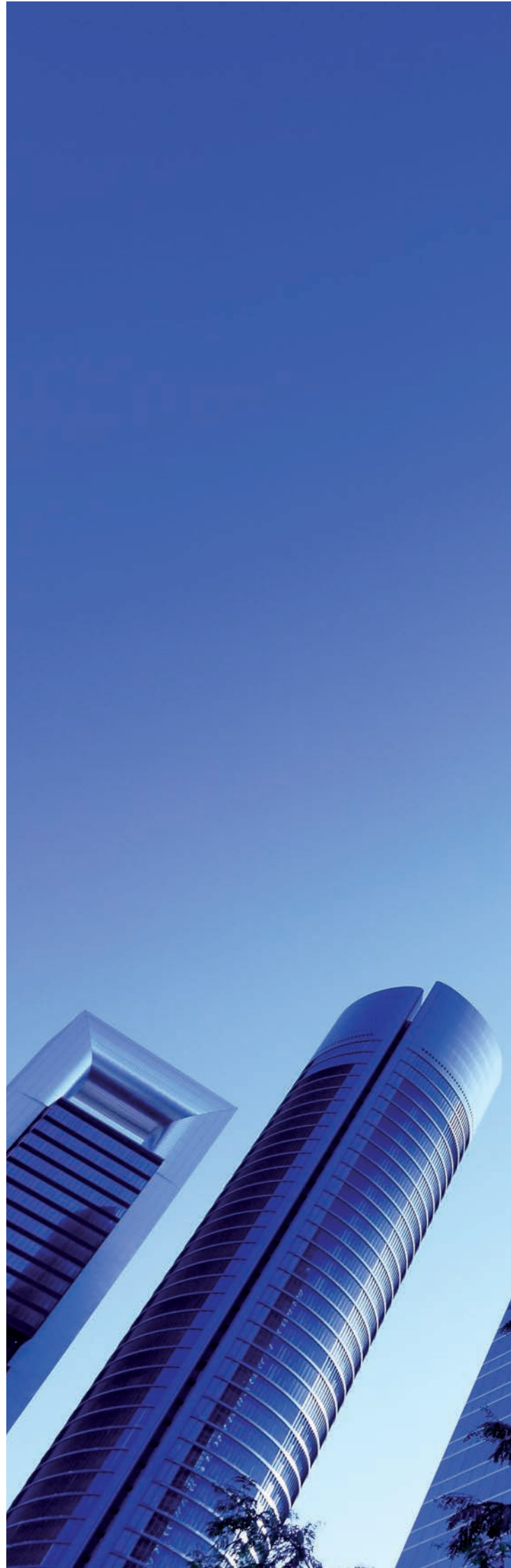
The aim of this work is to develop common approaches to regulating cross border activity in an increasingly globalized market place.

This work is progressing well; a survey of members was completed in late 2013 and a series of industry round tables were held in the first half of 2014 in Hong Kong, London and Washington.

We expect the Task Force to report on its work by the end of 2014 in response to the interest shown by the FSB and G20 leaders in this work.

Implementation Monitoring

The year 2013 also saw the launch of a number of projects to monitor implementation of IOSCO Principles and Standards. This reflects the increased focus of the FSB and the G20 on, and our commitment to, ensuring that standards developed in response to the crisis are implemented.







Projects have been undertaken on monitoring implementation of IOSCO's Principles for Financial Benchmarks, our 2012 recommendations on money market funds and securitization, the CPSS-IOSCO Principles on Financial Markets Infrastructure and regulatory initiatives on derivatives market intermediaries and on the timeliness and frequency of disclosure to retail investors.

Supporting our Members from Growth and Emerging Markets

I am proud to report that 2013 saw an increased focus on identifying and supporting the needs of our members of the Growth and Emerging Markets Committee (GEM and formerly known as the Emerging Markets Committee). Our GEM members account for over 75% of our membership. Their economies and markets will - in the coming decades - be the engine room of global growth. IOSCO has a critical role to play in assisting the development of capital markets in these economies that, by attracting patient capital, can support and drive real economic growth.

I want to acknowledge the important role Ranjit Singh of SC, Malaysia (as GEM Chair) and Bert Chanetsa, Deputy Executive Officer, Financial Services Board, South Africa (as GEM Vice Chair) have played in strengthening the

GEM Committee as a key part of IOSCO. A strategy for the GEM Committee was agreed last year and a Steering Committee was established. Through Ranjit Singh, our emerging market members have a passionate and articulate voice at FSB Plenary meetings.

A key initiative agreed by the Board in Luxembourg in September was the establishment of a Capacity Building Resource Committee, which was given a mandate to develop and implement a strategy to fund capacity building among our GEM members. This Committee - with support from the Secretariat and the GEM Committee - is identifying the initiatives that we will ask donors from the public and philanthropic sectors to fund. These initiatives respond to the needs identified by our GEM members and will - I envisage - focus on supporting supervision, investigation and investor education.

The task ahead is challenging. I don't want to underestimate how hard it will be; but I am strongly committed to giving everything we have to get the donations we need to deliver these programs.

Co-operation

In 2013, eight authorities became full signatories to the Multilateral Memorandum of Understanding

concerning Consultation and Cooperation and the Exchange of Information. The IOSCO MMoU provides securities regulators with valuable tools for combating cross-border fraud and misconduct. Three of the new signatories also became IOSCO members.

Our Screening Group and the General Secretariat continue to work tirelessly with members to meet the high standards we expect of signatories. In early 2014, two additional IOSCO members signed the MMoU, bringing to 101 the number of full signatories, out of a total of 124 eligible IOSCO members. The Graduated Additional Measures approved by the Presidents Committee in Luxembourg have been an important incentive for jurisdictions to sign up. These measures, which I believe are necessary, gradually restrict the influence of non-signatory members over key IOSCO policy decisions due to their limited contribution to enforcement efforts. The MMoU is the foundation on which cooperation between our members is based. Its effectiveness – and the effectiveness and impact of enforcement activity on global markets – depends on all of IOSCO's members becoming signatories.

How we are organized

We made important organizational changes last year and began a strategic review of IOSCO for the rest of this decade.

Membership and Board changes

A number of changes were approved in Luxembourg in September that I believe will make for a more inclusive and representative IOSCO:

- > Changes to the definitions of our associate and affiliate members that acknowledge the contribution and role of each of these member categories.
- > Changes to the composition of the Board that will increase the number of Board members by two to 34 when they take effect in September 2014. Membership of the Board will include the largest jurisdictions and seek to achieve:
 - an appropriate balance between developed and emerging markets; and
 - a balanced regional representation.

The new Board will see:

- three members elected from each region;

- four members elected by the GEM Committee; and
- 18 members drawn from the largest markets.

Both the Affiliate Members Consultative Committee (AMCC) and the European Securities Markets Authority (ESMA) will have observer status.

I believe this structure is optimal. It will increase representation of our emerging markets members while also ensuring that over 80 per cent of world markets, as measured by market value, are represented.

IOSCO 2020

At its Luxembourg meeting, the Board approved the **IOSCO 2020** project. This initiative provides us the opportunity to define how we want to be seen by our members and key stakeholders by the end of the decade and to draft a strategic plan to deliver on that vision.

The Way Forward

Our challenges for the coming year will be to build on the changes described above and the good work of the past.

My priorities as Chairman will be to ensure we do the following:

1. Support our growth and emerging markets through designing and funding a sustainable capacity building program that meets our members' needs;
2. Continue to focus single-mindedly on identifying, understanding and developing appropriate responses to emerging risks;
3. Deliver and complete the projects we have initiated in a timely way; and
4. Continue our focus on monitoring implementation of IOSCO Principles and Standards.

I ask members to support the Board, the Management Team and the General Secretariat in meeting these challenges.

Thank You.