Report from the Chair of the IOSCO Board

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Since the Annual Conference in May 2016, IOSCO has welcomed new leadership including the Secretary General, Paul Andrews, new Standing Committee Chairs and Vice Chairs, Jean-Paul Servais from the Financial Services and Markets Authority of Belgium who joined Ranjit Ajit Singh from the Securities Commission Malaysia as Board Vice Chair, and myself as Board Chair.

IOSCO Priorities

In 2016, IOSCO adopted a new priority-setting process to ensure that the policy committees more closely align their work with Board-approved priorities for IOSCO. Priorities are subject to annual review. As part of the new approach, the Board approved a series of initiatives designed to enhance the role of the Board in setting priorities as well as to redefine the roles and responsibilities of Committee Chairs and Vice Chairs.

IOSCO has now refocused its work on a shortlist of top priorities that are of real importance to securities markets and to those who participate in them. IOSCO is now better able to deploy its members' deep market expertise on work that is timely, forward looking and relevant for all our members.

IOSCO's current priorities are the following:

1. Strengthening the structural resilience of capital markets;
2. Addressing data gaps and information sharing issues;
3. Applying new insights into investor protection and investor education;
4. Analyzing the role of securities markets in capital-raising and sustainability issues, and the related role of securities regulation; and
5. The role of regulation in financial technology and automation.

With these changes in place, I am confident that IOSCO is better positioned to deal with the challenges ahead and for this I would like to thank the Board, the General Secretariat, the policy committees and all IOSCO members for their contributions to and support of this initiative.

Key market issues

Asset management

The regulation of investment funds and fund managers has been one of IOSCO's major policy focuses. Key work in the past few years set standards and provided guidance on areas such as suspension of redemptions in collective investment schemes (CIS) (2012), liquidity risk management for CIS (2013), valuation of CIS (2013) and regulation of Exchange Traded Funds (2013). In the past year, IOSCO policy experts continued to work on liquidity risk management and leverage issues identified with the Financial Stability Board (FSB), as potential structural vulnerabilities in some asset management activities that could potentially lead to financial stability risks. IOSCO consultation papers on liquidity risk management were issued in July 2017, proposing recommendations on disclosure to investors, the alignment of asset portfolio and redemption terms, availability and effectiveness of liquidity risk management tools and fund level stress testing, as well as providing practical information, examples and good practices regarding open-ended fund liquidity and risk management. In 2018, IOSCO aims to develop a broad measurement of leverage in funds and to collect relevant data for a more granular understanding of the use of leverage in funds.

OTC derivatives reform

We have also focused our efforts to strengthen the structural resilience of capital markets as part of the OTC derivatives reform following the 2008 global financial crisis. IOSCO members have led and contributed to various working groups of the CPMI-IOSCO, resulting in guidance on enhancing CCP resilience and recovery, as well as the harmonization of the Unique Transaction Identifier (UTI) for identifying OTC derivatives transactions that have to be reported to trade repositories. This work is consistent with the G20's commitment for a more transparent and resilient OTC derivatives market. Other CPMI-IOSCO working groups, led by IOSCO members, have been monitoring the implementation of the Principles for Financial Market Infrastructures (PFMI) and CCPs' financial risk management, and have published guidance on cyber resilience for financial market infrastructures. The work of these groups is crucial for maintaining financial market stability due to the interconnectedness of CCPs and OTC derivatives markets.

Market Conduct

The LIBOR and FX scandals illustrated the serious consequences when firms or individuals fail to manage risk effectively or to observe proper standards of market conduct. As a result, a number of international and national initiatives are aimed at reducing misconduct risk.

As part of these efforts, IOSCO's Market Conduct Task Force published its report in June 2017, which contains a toolkit for IOSCO members to discourage, identify, prevent and sanction misconduct by individuals in wholesale markets. Relevant tools included tailored enforcement and remedial sanctions, surveillance and data analysis, protection of whistleblowers, information sharing to track *bad apples*, (individuals with poor conduct records who move frequently from one company to another), and tools to ensure individual responsibility and accountability.

Corporate bond market liquidity

In response to concerns raised by market participants about liquidity in the secondary corporate bond market and changes in market structure (including changes in regulatory requirements) that have impacted liquidity, IOSCO Committee 2 on Regulation of Secondary Markets carried out a detailed analysis of various liquidity metrics, survey results from industry and regulators, industry roundtables and the responses to its consultation report, as well as a review of relevant research articles.

IOSCO published its final report in February 2017, concluding that it found no evidence showing that liquidity in the secondary corporate bond markets between 2004 and 2015 had deteriorated markedly from historic norms for non-crisis periods. The report also highlighted the challenge that a lack of useful data on the trading of corporate bonds posed to the fact-finding exercise. In view of this, the IOSCO Board asked Committee 2 to examine regulatory reporting and public transparency in the secondary corporate bond markets.

Co-operation and Information Exchange

The IOSCO Multilateral Memorandum of Understanding (MMoU) has become the dominant mechanism for information sharing and international enforcement cooperation among securities regulators.

Since the MMoU was established in 2002, there has been a significant increase in the interconnectedness of financial markets, as well as major advances in technology. There is a clear need to enhance information sharing and cooperation between IOSCO members in order to keep pace with these developments.

Against this background, IOSCO has now adopted the Enhanced Multilateral Memorandum of Understanding (EMMoU). The EMMoU covers obtaining and sharing audit work papers, compelling attendance of witnesses to give evidence, freezing of assets, and obtaining and sharing of existing Internet service provider (ISP) records and telephone records.

Separately, the IOSCO Board established a sub-group on data protection in October 2016 to analyze the implications of data privacy laws for the cross-border sharing of supervisory and enforcement information under the MMoU and EMMoU. The sub-group is now in discussions with European authorities to ensure that a balance is struck between data protection objectives and the effectiveness of cross border enforcement cooperation.

Role of the GEMC and AMCC

We place great importance on inclusiveness within IOSCO by drawing on the expertise within our Growth and Emerging Markets Committee (GEMC) and the Affiliate Members Consultative Committee (AMCC).

The GEMC's recent work has included strengthening cyber resilience in emerging markets via the world´s first cyber-attack simulation, as well as finalizing a landmark report to enhance corporate governance, which benchmarks emerging market practices to international standards.

IOSCO established an Infrastructure Working Group in 2016, where members from developed and emerging markets sought to identify features of securities market regulation that may impede the development of sustainable infrastructure financing – an area of keen interest among developing markets.

We value the industry experience of AMCC members and have been working with the AMCC to better align its workstreams with IOSCO priorities. A recent example was IOSCO's report on *Cyber Security in Securities Markets – An International Perspective* which incorporated insights from AMCC members.

Capacity Building

Launch of the IOSCO/PIFS-Harvard Law School Global Certificate Program

The Global Certificate Program aims to enhance members' regulatory and supervisory skills and techniques. It is jointly organized by IOSCO and the Program on International Financial Systems at Harvard Law School and was launched in 2016. So far, IOSCO has conducted two programs with a combined total of around 145 participants from the IOSCO membership.

First IOSCO Regional Capacity Building Hub in Malaysia

IOSCO's Regional Capacity Building Hub in Kuala Lumpur was launched in March 2017. This was the first time that IOSCO has established a presence outside its Madrid headquarters and I congratulate the Securities Commission Malaysia on its achievement. The Hub will significantly strengthen IOSCO's capacity building efforts with a wide range of training activities and programs for IOSCO members, particularly from growth and emerging markets.

Working with other International Standard Setters

Given the cross-sector issues that exist in many financial markets, it is vital that we work closely alongside other international bodies and standard setters.

To that end, IOSCO has been working with the FSB as part of a broader international effort to address financial stability vulnerabilities. In particular, we have been closely involved in the development of the FSB's policy

recommendations on asset management, which as mentioned above are now being taken forward by IOSCO.

Further, the IOSCO Board and the International Monetary Fund (IMF) have agreed on early and enhanced cooperation on market-related topics for IMF Global Financial Stability Reports. We have also agreed with the IMF on a new approach for Financial Sector Assessment Programs (FSAPs), whereby the IMF intends to conduct a full-scope graded assessment every ten years, supplemented by targeted reviews of 20 macro-financially relevant IOSCO Principles, in the intervening five-year period. We agreed with the IMF that all Principles are of equal importance and that the 20 Principles represent a starting point for the bilateral discussions between FSAP teams and the jurisdictions.

I have also touched on our joint work with the Committee on Payments and Market Infrastructures (CPMI) to further the regulatory agenda on OTC Derivatives.

CPMI-IOSCO has also been working on a framework for supervisory stress testing of CCPs and has discussed with the Basel Committee on Banking Supervision (BCBS) the potential disincentives to client clearing resulting from the treatment of client margin for bank regulatory capital purposes.

As we move forward in 2017, I would like to express my gratitude to all IOSCO members, Board members, the Committees and the General Secretariat for their valuable contributions to the work of IOSCO over the past year.