Activities of IOSCO's Policy Committees in the Year

The IOSCO Board reviews the regulatory issues facing international securities markets and coordinates practical policy responses to address the concerns they raise. 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 and supported by the General Secretariat:

> Issuer Accounting, Audit and Disclosure;
> Regulation of Secondary Markets;
> Regulation of Market Intermediaries:
> Enforcement and the 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 (GEM) Committee. This 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 eight committees support IOSCO in pursuit of its three main objectives: to protect investors, maintain fair, efficient and transparent markets, and seek to address systemic risks.

In addition to the policy committees, several task forces were entrusted in 2016 with examining relevant developments in the financial markets. They included the following:

> Board-level Task Force on Financial Benchmarks
> Task Force on OTC Derivatives Regulation (OTCDTF)
> Audit Quality Task Force
> Task Force on Market Conduct
> Compensation Experts Group
> Infrastructure Working Group

Committee on Issuer Accounting, Audit and Disclosure - C1

Committee Chair:
Mr. Parmod Kumar Nagpal (SEBI India)
Committee Vice Chair:
Ms. Jenifer Minke-Girard (US SEC)

The Committee 1 on Issuer Accounting, Audit and Disclosure (C1) is devoted to improving the development of accounting and auditing standards, and enhancing the quality and transparency of the disclosure and financial information that investors receive from listed companies. IOSCO considers the quality of disclosure and the accuracy, integrity and comparability of financial statements, and the transparency they provide, to be essential for protecting investors and thereby maintaining investor confidence in the public capital markets. Investor confidence also contributes to the long-term stability of the international financial system.

IOSCO recognizes that disclosure of reliable, timely information that is readily accessible contributes to liquid and efficient markets by enabling investors to make investment decisions based on material information. To meet this objective, Committee 1 develops international disclosure standards and principles that provide a framework for member jurisdictions seeking to establish or review their disclosure regimes for entities that issue securities. Committee 1 also monitors significant international developments related to disclosure in order to identify potential issues related to investor protection.

C1 monitors and supports the work of the international accounting standard setting bodies. This involves monitoring the projects undertaken by the International Accounting Standards Board (IASB) of the International Financial Reporting Standards Foundation (the IFRS Foundation), observing the IFRS Interpretations Committee (IFRIC), and participating in the IFRS Advisory Council and other IASB working groups.

The IFRS Foundation is the legal entity under which the International Accounting Standards Board (IASB) operates. Its mission, through the IASB, is to develop International Financial Reporting Standards (IFRS) that bring transparency, accountability and efficiency to financial markets around the world. Committee 1 contributes to the standard setting work of the IASB

through its involvement in the IASB´s work streams and its comment letters on IASB proposals. Its aim is to provide the IASB with input that reflects the perspective of securities regulators.

IOSCO is also a member of the Monitoring Board (MB) that oversees the IFRS Foundation. C1 provided comments in 2016 on three IASB exposure drafts --*Transfers of Investment Property, Proposed amendment to IAS 40; Annual Improvements to IFRSs, 2014-2016 Cycle and Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts, Proposed amendments to IFRS 4—and on a Practice Statement: Application of Materiality to Financial Statements* These comment letters are available on the IOSCO website.

IOSCO believes there is an important role for a set of international auditing standards to play 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) and participates in their respective Consultative Advisory Groups (CAGs). Committee 1 provided input in 2016 on the IESBA proposal on *Improving the Structure of the Code of Ethics for Professional Accountants*, which is also available on the IOSCO website.

In response to a string of corporate financial reporting scandals at the turn of the century, IOSCO became a founding member of the Monitoring Group (MG) of international organizations that is committed to advancing the public interest in areas related to international audit standard setting and audit quality. Committee 1 also represents IOSCO as an official observer at the International Forum of International Audit Regulators (IFIAR) plenary meetings. In this capacity, Committee 1 provides updates to and liaises with IFIAR on relevant IOSCO work streams.

Other Activities in 2016

Committee 1 published in December 2016 a *Statement on Implementation of New Accounting Standards* related to revenue (IFRS 15), financial instruments (IFRS 9), and leases (IFRS 16). The three new International Financial Reporting (IFRS) Standards, issued by the International Accounting Standards Board, are expected to significantly affect the financial statements of many issuers globally, given the breadth of their applicability.

The Statement highlights the importance of the implementation process by issuers and their audit committees, and the full, accurate and timely disclosures of the possible impacts of adopting the new standards. The Statement also provides a series of matters for issuers, as well as their audit committees and auditors, to consider as issuers adopt the new standards and auditors perform related audit procedures.

In June 2016, IOSCO issued a *Statement on Non-GAAP Financial Measures*, to assist issuers in providing clear and useful disclosure for investors and other users of financial measures other than those prescribed by Generally Accepted Accounting Principles (GAAP). The Statement is also aimed at reducing the risk that such financial measures are presented in a way that could be misleading. Non-GAAP financial measures can be useful to issuers and investors because they can provide additional insight into an issuer's financial performance, financial condition and/or cash flow. The use of non-GAAP financial measures also can provide issuers with flexibility in communicating useful, entity-specific information.

Also in June, IOSCO and the IFRS Foundation announced the *Statement of Protocols* that describes an ambitious program of work to promote and facilitate transparency within capital markets through the development and consistent application of IFRS Standards. The Statement built upon existing protocol arrangements between IOSCO and the IFRS Foundation, issued in 2013.

C1, in conjunction with the Task Force on Audit Quality, published a survey on audit committee requirements entitled *Survey Report on Audit Committee Oversight of Auditors*, which identifies audit committee practices that could improve audit quality at publicly listed entities.

Committee 2 on Regulation of Secondary Markets - C2

Committee Chair:
Ms. Tracey Stern, Manager (Ontario OSC)
Committee Vice Chair:
Ms. Shamsul Bahriah Shamsudin (SC Malaysia)

Committee 2 on Regulation of Secondary Markets looks at recent developments in the structure of global capital markets and financial market infrastructure, and analyzes how they contributed to, and are affected by, the financial crisis and other factors such as technological innovation. Committee 2 gives special attention to changes that impact the effectiveness and integrity of markets.

In August 2016, Committee 2 issued the report *Examination of Liquidity of the Secondary Corporate Bond Markets* for public consultation. The report indicated that IOSCO did not find substantial evidence showing that liquidity in secondary corporate bond markets had deteriorated markedly from historic norms for non-crisis periods. It also noted that there is no reliable evidence that regulatory reforms have caused a substantial decline in market liquidity, although regulators continue to monitor closely the impact of regulatory reforms.

However, the study did reveal meaningful changes to the characteristics and structure of secondary corporate bond markets, including changing dealer inventory levels, increased use of technology and electronic trading venues, and changes in the role of participants and execution models (i.e., dealers shifting from a principal model to an agency model). These findings were later supported by the final report published in March 2017.

The conclusions in the consultation report were based on a detailed analysis of liquidity metrics, survey results from industry and regulators, roundtable discussions with industry, and a review of academic, government and other research articles. Analyzing the data collected by member jurisdictions was challenging because of differences in data collection methods, scope, quality and consistency. Because of this, the study reinforced IOSCO's view that regulators should have access to timely, accurate and detailed information on secondary bond markets in order to assess adequately changes in these markets, monitor trends in trading, and respond accordingly. Consequently, the IOSCO Board decided to update its 2004 report on regulatory reporting and transparency in the corporate bond markets. This project calls for a detailed examination of IOSCO members´ transparency regimes and regulatory requirements.

Committee 2 also embarked in the year on an important project; *Mechanisms Used by Trading Venues to Manage Extreme Volatility and Preserve Orderly Trading*. The goal of this work is to build on a recommendation in IOSCO's 2011 Report, *Regulatory Issues Raised by the Impact of Technological Changes on Market Integrity and Efficiency*, which says regulators should ensure that suitable trading control mechanisms are in place.

Committee 3 on Regulation of Market Intermediaries – C3

Committee Chair:
Ms. Claire Kütemeier (BaFin Germany)
Committee Vice Chair:
Mr. Greg Yanco (ASIC Australia)

Committee 3 on Regulation of Market Intermediaries published three reports in December 2016 aimed at promoting investor protection and market efficiency through its recommendations and guidance on issues relating to market intermediaries.

The *Report on the IOSCO Survey on Retail OTC Leveraged Products* identifies various risks related to the marketing and sale of complex OTC leveraged products to retail investors. Based on a survey of IOSCO members, the report describes how some regulators are responding to the challenges to investor protection from offers of rolling-spot forex contracts, contracts for differences and binary options. The report found that clients not only suffer from the poor performance of these products, but they often encounter difficulties to withdraw their funds and frequently fall victim to aggressive or misleading marketing and sales practices.

The report indicated that many jurisdictions are particularly concerned about the cross-border business of firms located in countries that ban the sale of these products to domestic investors but take no regulatory action if the investors are foreign. Committee 3, in collaboration with other IOSCO policy committees, is considering undertaking a new project to address issues regarding high-risk OTC leveraged products that are identified in the report.

In December 2016, IOSCO published the *Report on Order Routing Incentives*, for a two-month public consultation period. The report provides an overview of the practices used by market regulators regarding incentives for order routing that may influence how intermediaries treat their clients.

The report examines the regulatory conduct requirements for brokers or firms to manage conflicts of interest associated with routing orders and obtaining best execution. It describes how these requirements interact with market practices in different jurisdictions to shape order routing incentives and how these incentives influence the behavior of intermediaries towards their clients. Such incentives may include, for example, discounts or rebates designed to direct order flow to one particular venue or to channel payments from one intermediary to another to receive their order flow.

Finally, Committee 3 issued in December 2016 the report *Update to the Report on the IOSCO Automated Advice Tools Survey*. The report indicates that the market for automated investment advice has developed rapidly since IOSCO published in 2014 a survey report on the use of these tools by intermediaries and retail investors. Growth is driven by intermediaries seeking to provide advice in a more efficient and cost-effective manner. Also, a growing number of retail investors, whether by preference or because they consider the services of traditional intermediaries too expensive or extensive for their needs, also prefer to manage their own portfolios using online tools, the report found.

In fact, the report shows that on-line technology tools are having an important impact on the investment advice value chain, including services such as asset allocation, portfolio selection and trade execution.

Committee on Enforcement and Exchange of Information – C4

Committee Chair:
Mr. Jean-Francois Fortin (Québec AMF)
Committee Vice Chair:
Ms. Jane Attwood (UK FCA)

Enforcement Cooperation

IOSCO believes that enforcement cooperation among regulators is essential to sustain effective global regulation and robust securities markets around the globe. To that end, Committee 4 on Enforcement and Exchange of Information continued in 2016 to work with the MMoU Screening Group to encourage 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 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. As of March 2017, there were 112 signatories to the MMoU. *(For more information on the MMoU see MMoU Screening Group under the chapter **Implementation and the MMoU, page 54 - 55**).*

Committee 4 began three new mandates in 2016 designed to facilitate IOSCO enforcement work:

Prohibitions, disqualifications and limitations based on foreign sanctions

The aim of this mandate is to examine the capacity of a jurisdiction to take into account the sanctions and measures of another jurisdiction when imposing a protective sanction to prevent misconduct in both markets. The international reach and focus of enforcement action by securities regulators are increasing with the globalization of capital markets. This development is reflected in the steady increase in the number of cooperation and assistance requests made each year under the IOSCO MMoU. The activities of the persons and entities that IOSCO regulates are increasingly cross-border, and the work under this mandate is aimed at assisting IOSCO members to work together more efficiently to deter, detect and react, through enforcement actions, to breaches of securities laws that span multiple jurisdictions. Committee 4 intends to identify what frameworks and approaches currently exist and which may best facilitate effective cross-border protective sanctions.

To support this work, Committee 4 conducted a survey in May-July 2016. In total, 30 jurisdictions responded to the survey, which found that the majority of respondents have the capacity to take into account foreign protective sanctions in their decision-making at most stages of the regulatory cycle.

A review of regulatory enforcement risks arising from the use of Cloud technology

The objective of this work is to gain an understanding of the potential risks that cloud computing poses to securities regulators. Increasingly, market players are shifting computing resources to the cloud environment, creating new risks and challenges for securities regulators as they undertake enforcement investigations and regulatory surveillance. These risks include:

- Deliberate misconduct perpetrated in the cloud environment as market participants seek to circumvent the oversight of securities regulators and avoid their enforcement action.
- Securities regulators' inability to retrieve and capture cloud-based evidence, causing them to refrain from enforcement action.
- Legal issues that prevent the recovery of cloud data or render cloud data inadmissible as evidence, impeding securities regulators from taking enforcement action.

Committee 4 conducted a survey among IOSCO members in May-July 2016, as part of its review of the regulatory enforcement risks arising from the use of cloud technology. The survey helped clarify the challenges of accessing and obtaining data for investigations of securities related misconduct and enforcement action, which stem from the growing use by entities and individuals of cloud technology services for data storage. Forty-one jurisdictions participated in the survey, half of which were members of IOSCO´s Growth and Emerging Markets Committee.

Securities regulators' powers to compel witness statements and obtain voluntary statements

Committee 4 is working to identify and describe the abilities of different jurisdictions to compel witness statements and obtain voluntary statements. The compilation of information will serve as a practical reference for securities regulators who may need assistance from a foreign regulator to compel statements from a witness abroad or obtain them on a voluntary basis. This resource also is intended to encourage dialogue between the requesting authority and the authority from which assistance is sought. Fifty-eight jurisdictions participated in a Committee 4 survey between November 2016 and February 2017.

Committee 5 on Investment Management - C5

Chair:
Mr. Robert Taylor (UK FCA)
Committee Vice Chair:
Mr. Natasha Cazenave (France AMF)

Structural Vulnerabilities in Asset Management

In June 2015, the IOSCO Board decided that a full review of asset management activities and products in the broader global financial context should be the immediate focus of international efforts to identify potential systemic risks and vulnerabilities. It also decided that that this review should take precedence over work on methodologies for the identification of systemically-important asset management entities. The Board agreed that work on methodologies for the identification of such entities should be reassessed after the review was completed.

To facilitate its work on this review, IOSCO's Committee 5 on Investment Management (C5) set-up the following three sub working groups (SWG):

> SWG 1 - Data Gaps
> SWG 2 – Liquidity Management
> SWG 3 – Loan Funds

This work is ongoing and will help inform discussions with the Financial Stability Board on structural vulnerabilities from asset management activities that could potentially present financial stability risk.

SWG1 - Data Gaps

The objective of SWG1 is to take stock of the data available to date, and identify where the data collected could be enhanced to help securities regulators better fulfill their regulatory responsibilities, such as supervision, enforcement and monitoring of risk throughout the asset management industry. In June 2016, C5 issued a *Public Statement* outlining IOSCO´s priorities regarding data gaps in the asset management industry. The Statement also highlighted gaps in data collection and suggested various high-level recommendations for taking the work forward. Overall, the key takeaway for IOSCO is to encourage its members to collect data with a view to improve the identification of systemic risk. A key priority outlined by this work was in the area of leverage. In light of the FSB´s recommendations regarding structural vulnerabilities from asset management activities, the SWG1 in 2016 began work on developing more consistent measures of leverage.

SWG2 –Liquidity Management

The aim of SWG2 is to provide the perspective of securities markets regulators to the broader debate around liquidity risk management in Collective Investment Schemes (CIS). In 2015, the sub-working group began to examine existing risk management practices, looking at how they relate to the existing 2013 IOSCO Principles of Liquidity Risk Management for CIS and developing further guidance in those areas where additional recommendations may be required.

SWG3 –Loan Funds[1]

In 2016, SWG3 completed a survey of different jurisdictions to determine how the market for loan funds is developing and how regulators are addressing the risks associated with these funds, which grant, restructure and acquire loans. Because these funds are considered an alternative to traditional financial channels, IOSCO's current work in this area is part of an on-going effort to build a robust, sustainable system of market-based finance.

IOSCO published the report *Findings of the Survey on Loan Funds* in early 2017, which concluded that

1 Following the tightening of bank rules (i.e., Basel III), investment funds that supply loans to corporate borrowers have emerged. These funds either select existing loans originally issued by banks or issue loans in competition with banks.

further work on Loan Funds was not warranted at that time. It noted, however, that IOSCO would continue to monitor this segment of the fund industry with a view to possibly revisiting it for further work, depending on market developments.

Collective Investment Schemes (CIS).

International Regulatory Standards on Fees and Expenses of Investment Funds

Regulators have long been concerned about the impact of CIS fees and expenses on investors. IOSCO believes that high standards of transparency and conduct should help encourage competition among CIS operators and lead to a more efficient market, thereby benefitting investors.

In 2004, Committee 5 reviewed existing practices with respect to CIS fees and expenses and published a set of standards to be regarded as good or best practice in this area. Since then, CIS practices have evolved, giving rise to new product structures, investment strategies and distribution models and leading regulators to adapt their approach to fees and expenses accordingly.

In response, Committee 5 conducted a second review in 2015, covering a wider range of regulatory approaches to markets at differing stages of maturity and reflecting recent developments in its member jurisdictions. In August 2016, C5 published the final report *Good Practice for Fees and Expenses of Collective Investment Schemes*. The 23 examples of good practice set out in the report reflect approaches to issues identified by regulators in some key areas, such as permitted or prohibited costs for a CIS; disclosure of fees and expenses to the investor, including use of electronic media; remuneration of the CIS operator; and performance-related fees, among others.

Good Practices for the Termination of Investment Funds

In August 2016, Committee 5 issued the *Good Practices for the Termination of Investment Funds* for public consultation. The Committee proposed 15 good practices for the termination of investment funds that are categorized under the following headings:

> Disclosure at Time of Investment
> Decision to Terminate
> Decision to Merge
> During the Termination Process
> Specific Types of Investment Funds

The work highlights the importance that IOSCO gives to investor protection. Without proper termination procedures in place, the decision to terminate an investment fund could have a significant impact on investors in terms of cost or their ability to redeem their holdings in a timely manner during the termination process.

Hedge Fund Survey

Committee 5 began its fourth iteration of the IOSCO Hedge Funds survey in 2016. The data, as per previous practice, was collected as of 30 September 2016. The IOSCO hedge fund survey enables the collection of internationally consistent data for the assessment of potential systemic risks arising from hedge funds.

Committee on Credit Rating Agencies - C 6

Committee Chair:
Ms. Rita Bolger (US SEC)
Committee Vice Chair:
Ms. Maya Marinov-Shiffer (ISA Israel)

In November 2016, Committee 6 on Credit Rating Agencies (CRAs) published a consultation report titled *Other CRA Products*, which seeks further insight into how market participants use non-traditional products or services offered by credit rating agencies to measure the credit risk of issuers or securities.

Examples of Other CRA Products and services include, inter alia: private ratings, confidential ratings, expected ratings, indicative ratings, prospective ratings, provisional ratings, preliminary ratings, credit default swap spreads, bond indices, portfolio assessment tools, and other tools.

Committee on Commodity Derivatives Markets - C 7

Committee co-Chair:
Mr. Eric Pan (US CFTC)
Mr. Paul Willis (UK FCA)

The Impact of Storage Infrastructures on Derivatives Market Pricing

The price formation process for commodity derivatives is complex. It is affected by many factors, not just the traditional elements of supply and demand. Rail cars, grain silos, oil tankers and metal warehouses are all fundamental components of a delivery system that ensures derivatives contracts can be fulfilled and commodities are delivered. Physical delivery and storage infrastructure can therefore have a profound impact on the economics of the futures markets,

such as the cost of carrying the derivatives contract, convergence between the derivative and the physical market prices, and the premiums for each of the contract's delivery points.

In response to these possible impacts, Committee 7 on Commodity Derivatives Markets (C7) reviewed the influence of storage and delivery infrastructures on the integrity of the price formation process of physically delivered commodity derivatives contracts traded on regulated platforms. As part of this work, Committee 7 gathered information relating to rule enforceability, conflicts of interest, impact on price formation through capacity or load out rate constraints, and information dissemination, and published a report with its findings in May 2016.

The report *Impact of Storage and Delivery Infrastructure on Commodity Derivatives Market Pricing* concluded that IOSCO's *Principles for the Regulation and Supervision of Commodity Derivatives Markets*, published in September 2011, provide an adequate framework for implementing effective oversight, governance and operational controls of storage infrastructure and did not require additional principles or revision of the existing principles.

Work on Price Reporting Agencies

IOSCO continued in 2016 to monitor the activities of Oil Price Reporting Agencies (PRAs), in collaboration with the International Energy Association (IEA), the International Energy Forum (IEF) and the Organization of Petroleum Exporting Countries (OPEC). Its interest in Oil PRAs stems from the fact that their price assessments referenced in derivative contracts can affect the integrity of financial instruments.

In October 2012, IOSCO published the *Principles for Oil Price Reporting Agencies*. Since then, the results of two implementation reviews indicate that the PRA Principles have given rise to an established governance and operational framework for PRAs. The four main PRAs are committed to adhering to the PRA Principles and to undergoing independent external assurance reviews.

Merger with the Task Force on OTC Derivatives Regulation

The IOSCO Board decided at its Hong Kong meeting in October 2016 that Committee 7 would merge in 2017 with the Task Force on OTC Derivatives Regulation, as part of an effort to reduce overlap and increase the efficiency of IOSCO work.

Committee on Retail Investors - C8

Committee Chair:
Mr. José Alexandre Vasco (CVM Brazil)
Vice Chair:
Mr. Miles Larbey (ASIC Australia)

Established in June 2013, Committee 8 on Retail Investors (C8) has a primary mandate to conduct IOSCO's policy work on retail investor education and financial literacy, and a secondary mandate to advise the IOSCO Board on emerging retail investor protection matters and to conduct investor protection policy work as directed by the Board. The main purpose of the advice is to bring investors' perspective and cognitive capabilities to the Board's attention so that the Board may adequately take these into account.

Since its inception, Committee 8 has published the following reports:

> *Strategic Framework for Investor Education and Financial Literacy* (Nov 2014)
> *Survey on Anti-Fraud Messaging* (May 2015)
> *Sound Practices for Investment Risk Education* (Sept 2015)
> *Engaging the Voice of Retail Investors in Regulatory Initiatives – Internal report* (April 2016)

In June 2016, the Board approved two mandates on (i.) senior retail investor vulnerability and (ii.) the application of behavioral economics insights to investor programs and initiatives. To carry out this work, Committee 8 conducted a survey on senior investor vulnerability among its members. The survey examines the risks that senior investors may face and the specific strategies, policies and resources that may be used to address the needs of senior investors. Committee 8 also conducted a survey among IOSCO members on their application of behavioral insights. The final reports of both work streams are expected to be published by the end of 2017.

Joint Policy Committee Work: Cyber-resilience

IOSCO cyber coordinator:
Mr. Louis Morriset (Québec AMF)

In 2014, the Board decided to investigate how IOSCO could further support its members and market participants in enhancing cyber security in securities markets. The Board asked the Quebec Autorité des Marchés Financiers, with the assistance of the China Securities Regulatory Commission and the Monetary Authority of Singapore, to coordinate and guide IOSCO's work on cyber security issues.

The result of this joint effort was the report *Cyber Security in Securities Markets – An International Perspective*, published on 6 April 2016. The report brings together insights and perspectives from IOSCO's various policy and regional committees and stakeholders on the topic of cyber resilience, and provides a review of the different regulatory approaches related to cyber security. It also describes the tools available to regulators to respond to the cyber risk, as well as some of the practices adopted by market participants.

The content of the report is organized around the following segments of securities markets: reporting issuers, trading venues, market intermediaries, asset managers and financial market infrastructures. The regulatory issues, challenges and approaches are highlighted in relation to these segments. Furthermore, the report underscores the issues and opportunities related to cooperation and information sharing among market participants and regulators.

Task Forces

Board Level Task Force on Financial Benchmarks

Task Force Chair:
Mr. Edwin Schooling Latter (UK FCA)

IOSCO established a Board-level Task Force in September 2012 to identify and consider benchmark-related issues, following a series of investigations into attempted manipulation of financial benchmarks.

In response to the problems plaguing major interbank lending rates, the IOSCO Task Force published in July 2013 the *Principles for Financial Benchmarks* (Principles), with the aim of creating an overarching framework of 19 Principles for benchmarks used in financial markets, covering governance and accountability, as well as the quality and transparency of benchmark design and methodologies. The Principles are a set of recommended practices that should be implemented by benchmark administrators and submitters. They were endorsed by the G20 Leaders at their St Petersburg Summit in 2013 as global standards for financial benchmarks and continue to serve as guidance to jurisdictions globally.

In 2016, IOSCO continued to review the implementation of the Benchmark Principles by different administrators, as part of its efforts to enhance the integrity, the reliability and the oversight of financial benchmarks. In February 2016, IOSCO published the *Second Review of the Implementation of IOSCO's Principles for Financial Benchmarks by Administrators of EURIBOR, LIBOR and TIBOR.*

The report sets out the findings of the second review of the implementation of IOSCO's Principles for Financial Benchmarks by the administrators of the benchmarks collectively known as the IBORs: The Euro Inter-Bank Offer Rate (EURIBOR); the London Inter-Bank Offer Rate (LIBOR); and the Tokyo Inter-Bank Offer Rate (TIBOR). It was prepared by a Review Team comprising members of the IOSCO Board-level Task Force on Financial Market Benchmarks and the IOSCO Assessment Committee.

IOSCO's first review was published in July 2014 and offered remedial recommendations aimed at strengthening the implementation of the Financial Benchmark Principles by the three administrators. The second review determined that all three administrators had been proactively engaged in addressing the issues raised by the first review, which had found an important distinction between the progress made on implementing the Principles related to the quality of the benchmark and that on implementing the Principles related to governance, transparency and accountability. Regarding the latter group of Principles, the second review found that a majority of recommendations made by the first review had been implemented; regarding the Principles related to the quality of benchmarks, all three administrators were working to further anchor the three benchmarks in transactions.

During 2016, the Task Force also furthered its work on the second review of the implementation of IOSCO´s *Benchmark Principles in respect of the WM/Reuters 4 p.m. Closing Spot Rate*. The report, published in early February 2017, found that the administrator – Thomson Reuters Benchmark Services Ltd -- had made very significant progress implementing most of the recommendations made in an earlier review. However, some room exists to improve and refine recently implemented policies and practices. The review identifies where additional actions would help maintain or improve the effectiveness of the frameworks put in place to address the recommendations.

Further Guidance to improve quality of reporting on compliance with Benchmark Principles

IOSCO issued in December 2016 *Guidance on Statements of Compliance with the IOSCO Principles for Financial Benchmarks*, which seeks to increase the consistency and quality of reporting by benchmark administrators on their compliance with the Principles. The guidance sets out reasonable expectations about the level of detail that should be included in statements of compliance, with a view to enable market authorities, users of benchmarks and other market participants and stakeholders to understand the extent to which an administrator has implemented the Principles.

Task Force on OTC Derivatives Regulation

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

Following the financial crisis, some market participants expressed concerns about the ISDA Credit Determination Committee (DC) and the Credit Default Swap (CDS) auction processes. In response, the IOSCO Board requested in July 2015 that the Task Force on OTC Derivatives conduct research regarding the functioning of the ISDA DC and CDS auction processes, and to assess whether the Task Force should undertake further work in this area.

To reach a broader group of market participants, and to more fully understand the DC and auction processes, the Task Force launched an initiative to research and analyze how the processes operate, including:

- management of conflicts of interest;
- what safeguards ISDA and participants collectively have in place to ensure that market sensitive information (for example information gained through participation in the DC or through receiving client orders for the auction) is not used for trading or other business purposes;
- the composition of the DC;
- whether lessons are to be learned from contested DC decisions in the past;
- the auction process and safeguards against opportunistic behavior.

As part of the project, the Task Force engaged with the ISDA and market participants on questions raised by its research on how the determinations committees and auction processes operate. Based on this comprehensive analysis, the Task Force has identified the existing gaps in the processes and will decide whether to recommend to the IOSCO Board further work in this area.

Audit Quality Task Force

Task Force Chair:
Mr. Gerben J. Everts (Netherlands AFM)

In February 2014, IOSCO established the Audit Quality Working Group to help identify possible areas where the organization could work to promote audit quality. Improving the quality of international auditing is key to promoting consistent high quality financial reporting. Audit and securities regulators across the globe have pointed out that audit quality is not consistently delivered, and that deficiencies in audit performance are often frequent. Audit inspections have indicated that incremental investments and reforms are required.

Also in 2014, the IOSCO Board approved the working group's recommendation to set up an Audit Quality Task Force (AQTF) with a mandate to oversee and execute other working group recommendations, which included:

- ensuring that cooperation with stakeholders (strategic partners) such as the International Forum of Independent Audit Regulators (IFIAR) progresses on a more permanent and institutionalized basis.
- assessing whether and how to strengthen the role of audit committees and, as a first step, launching a survey on the role of audit committees vis-à-vis audit quality and how this role has evolved in different jurisdictions over time.
- promoting more robust audit-related standard setting governance.

During 2016, the Task Force continued to follow these recommendations: It intensified cooperation with IFIAR and established a working relationship at secretariat level that facilitates the exchange of information between IFIAR and IOSCO. In May 2016, the Task Force published a survey on audit committee requirements, in conjunction with Committee 1 on Issuer Accounting, Audit and Disclosure. The *Survey Report on Audit Committee Oversight of Auditors* identifies audit committee practices that could improve audit quality at publicly listed entities.

The report summarizes the results of the survey of IOSCO members regarding the existing legal, regulatory and other requirements related to the oversight by audit committees of the auditor and the audit process of domestic publicly-listed entities. The report also serves to inform interested stakeholders and IOSCO members of the audit committee requirements in force in different jurisdictions, as of 31 December 2014.

The Task Force was disbanded following publication of the survey report.

Task Force on Market Conduct

Task Force Chair:
Mr. Ashley Alder (Hong Kong SFC)
Task Force Vice Chair:
Mr. Nick Miller (UK FCA)

The global financial crisis provided a clear example of how severe patterns of misconduct can damage the efficient functioning of financial markets. The Task Force on Market Conduct was established in 2015, following a request from the Financial Stability Board for IOSCO to explore the possible benefit of undertaking further work on market conduct.

The objectives of the Task Force are:

> to raise a broader awareness among financial institutions and individuals about the tools and approaches IOSCO members use to regulate conduct in wholesale markets; and

> to present examples of market conduct tools and approaches, including innovative and impactful approaches, to assist IOSCO members.

By end 2016, the Task Force had completed a mapping exercise of past IOSCO work on conduct issues in wholesale markets and a survey of IOSCO members on the tools and approaches used to regulate this sector. The work indicated that IOSCO already has principles and standards covering market conduct in wholesale markets, both generally and specifically. IOSCO members were also shown to have relevant market conduct frameworks that incorporated a broad range of tools (both supervisory and enforcement) to address misconduct in wholesale markets.

IOSCO was expected to publish a report in mid-2017 that identifies different characteristics of wholesale markets that may foster conduct risk. It also will describe the ways in which market regulators have addressed conduct regulation.

Compensation Experts Group

Chair:
Mr. Paul Andrews
(IOSCO Secretary General)

At its meeting in Lima in May 2016, the IOSCO Board approved the creation of a small group of experts on compensation in the securities sector, to complement the work by the Market Conduct Task Force. The group is comprised of members from Committee 1 on Issuer Accounting, Audit and Disclosure, Committee 3 on Regulation of Market Intermediaries, Committee 5 on Asset Management and the Growth and Emerging Markets Committee Task Force on Corporate Governance.

In December 2016, the group hosted jointly with the Financial Stability Board a roundtable with industry on compensation practices in the securities sector.

The roundtable, which was designed as a fact-finding exercise, enabled industry participants to exchange views on the similarities and differences in how firms approach compensation issues in the securities sector.

Shortly after, the CEG conducted a survey of securities regulators in 21 IOSCO member jurisdictions regarding the legal and regulatory aspects of compensation policy, and the compensation practices and risk alignment in the securities sector.

Infrastructure Working Group (IWG)

Task Force co-Chairs:
Mr. Jaime González Aguadé (NBV Mexico)
Mr. Paul Muthaura (CMA Kenya)

At its meeting in Lima in May 2016, the Board decided to establish a working group comprised of board members from both advanced economies and growth and emerging markets, to examine issues related to infrastructure financing.

The Infrastructure Working Group (IWG) is seeking to engage multilateral development banks, institutional investors and other stakeholders with a view to identifying ways in which they can collaborate with capital market regulators to address the problems around the availability of market-based finance for infrastructure development.

The mandate recognizes that the collaboration with development banks and institutional investors is likely to have the biggest impact on jurisdiction and project-specific work, primarily in the form of capacity building or technical assistance.

The IWG is also tasked with discussing non-jurisdiction or project-specific barriers to the creation of tradeable infrastructure asset classes, while recognizing that the creation of new funding instruments, standardized contractual terms, and investor practices are primarily industry initiatives.

The Task Force organized a roundtable in January 2017 with industry to identify factors influencing the use of capital markets for infrastructure finance.