Annual Report 2016

INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS

OICV-IOSCO

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INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS

OICU-IOSCO

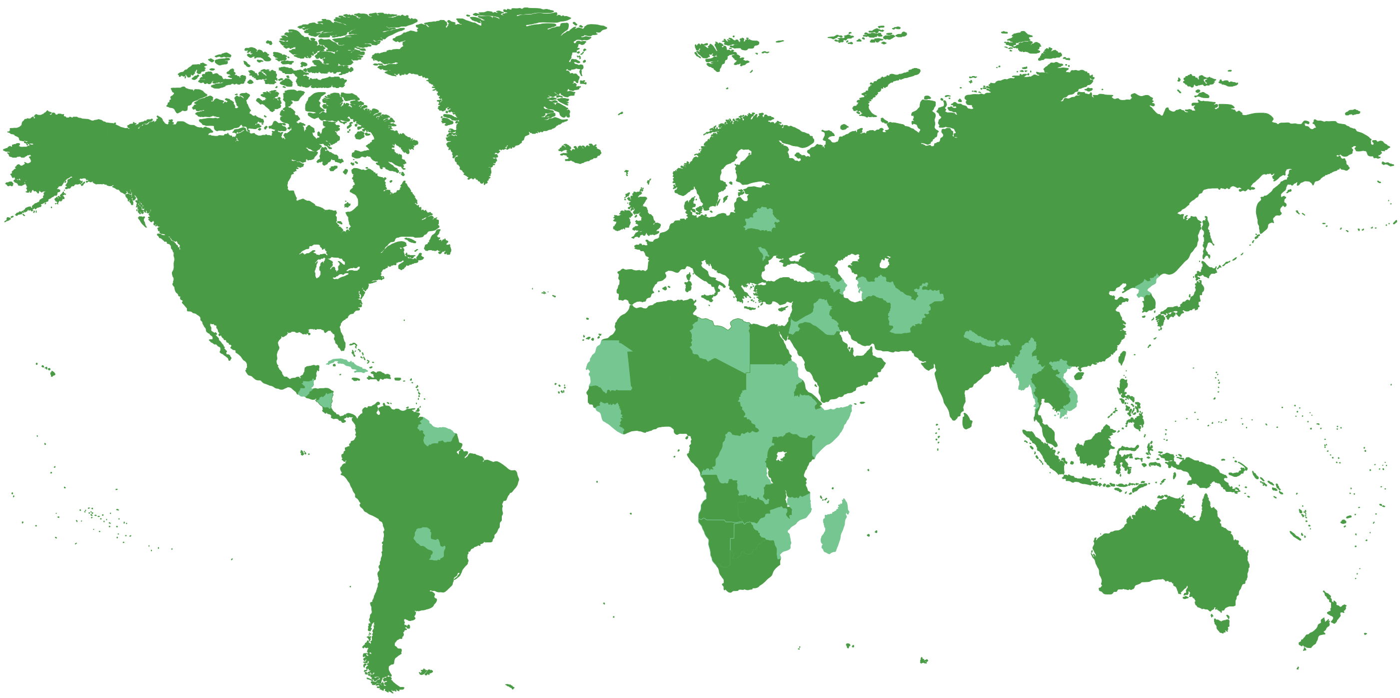
IOSCO OBJECTIVES

- to cooperate in developing, implementing and promoting adherence to internationally recognized and consistent standards of regulation, oversight and enforcement in order to protect investors, maintain fair, efficient and transparent markets, and seek to address systemic risks;

- to enhance investor protection and promote investor confidence in the integrity of securities markets, through strengthened information exchange and cooperation in enforcement against misconduct and in supervision of markets and market intermediaries; and

- to exchange information at both global and regional levels on their respective experiences in order to assist the development of markets, strengthen market infrastructure and implement appropriate regulation.

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



IOSCO MEMBERSHIP

NON-MEMBER JURISDICTIONS

Note: The following two organizations are ordinary members:

1. The **West African Monetary Union (WAMU)**, which comprises Benin, Burkina Faso, Ivory Coast, Guinea-Bissau, Mali, Niger, Senegal, and Togo.
2. The **Commission de Surveillance du Marché Financier de l'Afrique Centrale (COSUMAF)**, which comprises Cameroon, Central African Republic, Congo, Gabon, Equatorial Guinea, and Chad.

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Report from the Chair of the IOSCO Board

Ashley Alder
> Chair of the IOSCO Board
> Chief Executive Officer of the Securities and Futures Commission, Hong Kong

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.

Report from the Chair of the Growth and Emerging Markets (GEM) Committee

Ranjit Ajit Singh
> Vice Chair of the IOSCO Board
> Chair of the Growth and Emerging Markets Committee
> Chairman of the Securities Commission Malaysia

I am pleased to present this year's report of the Growth and Emerging Markets (GEM) Committee. The Committee's overarching priorities continue to focus on developing greater regulatory capacity for members, deepening regulatory and policy work on emerging market issues and strengthening risks and vulnerabilities assessments of emerging markets.

There continues to be significant interest in the efforts and initiatives of the GEM Committee, the largest committee within IOSCO, with its membership growing from 90 members in 2014 to 104 members in 2016. A review was conducted in 2016 on how to strengthen the GEM Committee´s contribution to and involvement in IOSCO policy work. This includes proposals to address issues relating to the leadership and membership of Board committees, the identification of issues and priorities for the GEM Committee and their incorporation throughout IOSCO's work.

Some of the measures that have been taken by the GEM Committee to strengthen the inclusiveness of the membership throughout 2016 include an annual GEM survey on regulatory issues and priorities of emerging market members and the development of a GEM register for leadership positions on Board policy committees or participation in these relevant committees. Following the conclusion of the Board committee elections in September 2016, emerging market representatives held 30% of committee leadership positions, compared to only 15% in 2014. This is a testament to our concerted efforts to increase the participation and contribution of emerging markets at the Board (through the two additional GEM seats in 2014), as well as at the technical and policy level. It is also a reflection of the expertise of GEM members and their strong capabilities to take on these leadership roles.

Enhancing capacity building for emerging market regulators

Capacity building has been a major focus of the GEM Committee and becomes all the more critical in the context of a challenging market environment. Regulators will need to continue to exercise strong regulatory oversight and to remain vigilant against market stresses. The GEM Committee has been working together with the IOSCO General Secretariat on several initiatives to provide greater support to the wide spectrum of emerging market members, including strengthening the cross-sharing of expertise. This includes a Help desk, and an online tool for sharing practical and organizational information among GEM regulators.

The Help desk is intended to act as one-stop facility that members can call upon on an ad-hoc basis or when they require a sounding board or a prompt response in the event of a major market incident (e.g., market stress or extreme market volatility). It can also be used as an ongoing facility to channel general regulatory discussion topics or questions to IOSCO and fellow regulators. The IOSCO General Secretariat will play a key role in facilitating relevant responses from members.

The online tool, which is led by the GEM Vice Chair, Marcos Ayerra, is intended for sharing practical and

organizational information among GEM regulators. This includes the sharing of operational data and practices, market data, legal frameworks etc., to facilitate efforts to develop and implement effective regulatory frameworks for securities regulation.

Further, as part of the GEM Committee's efforts to strengthen the regulatory capabilities of its members to manage risks, the Committee conducted a Workshop on cyber-resilience during its 2016 Annual Meeting and Conference, hosted by the Financial Services Authority Indonesia. The exercise, which included an interactive cyber-attack simulation, was the first of its kind for securities regulators globally, and was designed by IOSCO in collaboration with the Bank of England. The Workshop attracted participants from over 40 jurisdictions and helped raise awareness of the role of securities regulators in the event of a potentially systemic cyber-attack and of issues relating to interactions with other stakeholders and authorities, public communication and cross-border information sharing.

In addition, to further facilitate market developmental efforts, a GEM Conference themed *Optimising Innovation and Strengthening Governance in Emerging Markets* was held during the GEM annual meeting. Areas discussed during the Conference related to the policy work being undertaken by the GEM Committee, including SME financing, digitalization and corporate governance where there was an excellent line up of international speakers.

Complementing these initiatives, IOSCO launched its Asia Pacific Hub located in Kuala Lumpur and hosted by the Securities Commission Malaysia (SC Malaysia). The launch was held in conjunction with the SC Malaysia's annual GEM Regulatory Conference. The IOSCO Asia Pacific Hub will focus on delivering capacity building activities that will allow IOSCO to provide more targeted solutions to address the needs and challenges of members in the region. It will also allow IOSCO to better leverage on the regional experience, expertise and infrastructure within its membership to foster greater innovation within capital markets, and enhance regional connectivity and inclusiveness.

Deepening regulatory and policy work

In 2016, the GEM Committee completed two reports. The first was related to *Fintech in Emerging Markets* and was integrated into *IOSCO Fintech Overview Report*; the second report was on *Corporate Governance in Emerging Markets.*

In relation to Fintech, the work conducted by the GEM Committee indicated that Fintech is encouraging greater financial inclusion within many emerging markets. Fintech applications are developing at an increasingly fast pace, creating opportunities for markets to achieve better investor outcomes, such as greater access for previously underserved segments of the population to modern portfolio, theory-based investment at lower cost; easier comparability of investment options, costs, fees and investment returns; greater investor choice and diversification; and greater financial inclusion. The latter is especially true in emerging markets where, due to the lack of legacy infrastructure, Fintech is often able to leapfrog current technology. Given the significant potential of Fintech for emerging markets, the GEM Committee´s work highlights the importance of technology-neutral regulatory frameworks and graduated regulatory approaches to manage the transition in a digitalized environment. Another useful takeaway of GEM Committee work was the importance of addressing information asymmetries.

The report *Corporate Governance in Emerging Markets* focuses on three key areas: Board composition and responsibility; remuneration and incentive structures; and risk management and internal controls. The report reflects a general alignment of regulatory frameworks in emerging market jurisdictions with the recommendations of the revised G20/OECD Principles of Corporate Governance. It also indicates there is broad agreement on the direction regulators should take to improve the quality of Boards, ensure that remuneration and incentive structures work to create long-term value and improve risk management frameworks and internal controls.

Following the publication of the Corporate Governance Report, the GEM Committee held a Corporate Governance Dialogue with institutional investors in London in June 2017. The intention is for the Committee to engage more closely with key stakeholders on investment issues affecting emerging markets, including those relating to corporate governance.

In 2017, and in line with IOSCO's overall priorities, the GEM Committee will be commencing work on *Sustainability in Emerging Markets*. This is an area that has been gaining significant momentum across global markets, and stems from the need to scale up financing and investments to support sustainable development of economies and encourage transition to a low carbon economy. Further, growing population and rapid urbanization have spurred greater efforts to promote sustainability within emerging markets. The GEM Committee's work will focus on reviewing the role that securities regulators play in capital formation and sustainability.

Strengthening assessment of risks in emerging markets

The GEM Committee continues to engage closely on global developments and their impact on emerging markets. These efforts have become all the more important given the significance of emerging markets in the global economy and geopolitical changes in 2016 that brought uncertainty to the global regulatory system and unpredictability in the macro-policy environment.

The risks of cyber security threats, particularly to critical financial market infrastructure and their potential impact on the broader economy, continue to be a concern, particularly as markets shift towards a more digital economy at an increasingly faster pace.

Regular engagements with leading global industry players and international organizations through risk roundtables and discussions are therefore a regular feature of the GEM Committee meetings, with a view to helping members better understand the emerging risks and threats to markets.

Finally, let me express my appreciation to the GEM Vice Chairs, Leonardo Pereira and Marcos Ayerra, members of the GEM Steering Committee and the IOSCO Secretary General, Paul Andrews, and the General Secretariat for their significant efforts and contributions. I am also grateful to the IOSCO Board Chair, Ashley Alder, the IOSCO Board Vice Chair, Jean Paul Servais, and Board members for their continuous support of the GEM Committee.

Report from the Chair of the Affiliate Members Consultative Committee (AMCC)

José Carlos Doherty
> Chair of the Affiliate Members Consultative Committee
> Chief Executive Officer of the Brazilian Financial and Capital Markets Association (Anbima)

In 2016, the Affiliate Members Consultative Committee (AMCC) consolidated its position as the leading forum for IOSCO's affiliate members to discuss policy making, industry-related issues, and capacity building. Its constituency --self-regulatory organizations, market infrastructures, associations, etc.-- encompasses a diverse group of experts, who collaborated in 2016 on four AMCC reports on Fintech and the second edition of the Cybersecurity Survey, among other initiatives. In 2016, the AMCC held its Regulatory Staff Training Seminar in Chicago, and attracted more than 100 attendees.

In 2016, the AMCC set a new high-mark for the volume of work completed. With the support of our members, and following improvements to the AMCC structure – including the inauguration of the Vice Chair post, now occupied by Karen Wuertz, from the US National Futures Association – the Committee engaged on a wider range of topics, and produced more deliverables. Here are some of our accomplishments in the year:

Initiatives in the Fintech space

Fintech has become a key issue on the AMCC Agenda. The Lima Meeting (May 2016), for example, featured three panels covering different aspects of Fintech, such as the impact on retail investors and the potential uses of Distributed Ledger Technology (DLT). Shortly after the Lima meeting, the AMCC established a Task Force on Fintech. Its general objective is to support IOSCO´s work in this area, initially through collaboration with the Committee on Emerging Risks (CER), which published its report in February 2017. The Task Force has two work streams. The first one, chaired by Ms. Wuertz (NFA), surveyed AMCC members in mid-2016 on Fintech innovations and the regulatory responses to them. Among its main findings, the Task Force identified DLT/blockchain, digital/automated/robo-advice and crowdfunding as the Fintech innovations expected to have the greatest impact on financial markets. Regtech was also mentioned several times, indicating that some members are already considering the possible effects of these new technologies on regulation.

This group also responded to specific requests from the CER on innovations in trading and trading platforms, with a focus on changes in corporate bond markets and recent trends in social media sentiment investing, social networking platforms, mirror trading and auto trading.

The second work stream, chaired by Nandini Sukumar, CEO of the World Federation of Exchanges (WFE), is focused on the repercussions of DLT. This working group developed a questionnaire jointly with the CER. The results of the questionnaire, summarized in a report prepared and published by the WFE, highlighted how many financial market infrastructures favor increased cooperation among themselves, as well as with regulators and policy-makers, to take full advantage of DLT.

Cybersecurity Survey

The Second Global Cybersecurity Asset Management Survey, developed by ICI Global, was conducted in August 2016. Preliminary results were presented at the AMCC Mid-Year Meeting and the final report was later sent to all asset managers that responded to the questionnaire, thereby providing survey participants with a better understanding of the industry's standards and how the sector has evolved since the last review. For the next reiteration, the pertinent Working Group will seek to expand the Survey's geographic coverage.

Gathering expertise and sharing knowledge

In 2016, AMCC members met on two occasions: the first in Lima, for the Annual Meeting, and the second in Chicago, for the Mid-Year Meeting. These events allowed members to discuss some of the most relevant market and regulatory developments. Apart from debating the Committee's priorities and work plan, AMCC members tackled issues such as cross-border regulation of trading venues, implementation of circuit breakers, investment fund data, cybersecurity, Fintech and more. On this last topic, the panel discussions on innovations for retail investors and DLT were so prolific that they gave rise to two detailed summary notes, which are available to IOSCO members on demand.

The 2016 edition of the AMCC Regulatory Staff Training Seminar drew more than 120 representatives from regulators, self-regulators and exchanges from more than 40 countries. The topics discussed included risk-based supervision, data analytics (touching on both analysis methods and tools), innovative retail protection measures and an interesting description of an enforcement case on spoofing.

Looking ahead

The work streams on Fintech and cybersecurity mentioned above will remain active in 2017. The AMCC will make a concerted effort, especially in the Fintech space, to align activities with the priority focus areas defined by the IOSCO Board.

The AMCC will also look to support IOSCO work on behavioral insights as well as the Committee 5 work on investment fund data gaps (specifically regarding the assessment of leverage measures). To this end, receiving the continuous support of the IOSCO Board, the General Secretariat and other committees remains essential for the AMCC.


OICU-IOSCO
IOSCO AMCC MEETING
Lima, Peru
8 - 9 May 2016

Report from the IOSCO Secretary General

Paul Andrews
> IOSCO Secretary General

This past year has seen several organizational changes which we think will help us become a more focused and results driven organization to help better serve our members. Here, I would like to outline the main changes that are taking place.

First, the Board has decided that it will engage in an annual priority-setting process at its October meeting each year, which will result in deciding which focus areas the Board (and its Committees and Secretariat) should concentrate on in the coming year. The goal is to ensure that we are examining a limited set of critical issues that impact the vast majority of IOSCO members.

Second, once the Board has set IOSCO's priorities, policy work will be carried out in two ways – top-down and bottom-up. Under the top-down approach, the Board, with the help of the Secretariat, will ask policy committees to carry out certain mandates because these are specific workstreams that the Board deems to be critical to the priorities. At the same time, the Board recognizes the vast expertise in the policy committees themselves, as well as the regional committees and the Growth and Emerging Markets Committee, and thus, under the bottom-up approach, committees are encouraged to provide proposals to the Board for work that they believe is important to further a particular priority.

Third, under both the top-down and bottom-up approaches, the Board has established a set of eight prioritization questions that will guide whether the proposed mandate should be undertaken:

1. How useful will the work be for IOSCO and its members;
2. Which of the three core IOSCO objectives -- investor protection; fair, efficient and transparent markets; reduction of systemic risk -- are the Focus Areas primarily addressing, acknowledging that in most cases more than one objective will be addressed;
3. How does this relate to other international work and priorities, including those of the G20/Financial Stability Board (FSB);
4. How does the work relate to risks the Board is concerned about, including those set forth in the IOSCO Risk Outlook;
5. How does the work relate to the IOSCO 2020 Strategic Direction and cross border issues;
6. What are the key developments in member jurisdictions where IOSCO's work could impact positively;
7. What is the potential for the work to touch a large number of IOSCO members; and
8. Does the list of Focus Areas indicate to IOSCO's stakeholders (e.g., prudential regulators, governments, investors) that it is engaging in key, substantive issues and giving these issues the focus they deserve?

Fourth, the Board will assign a level of priority to each mandate it approves – high, medium or low. Under a high level of priority, the Board will devote most of its time and attention to these items and closely monitor progress at each stage of the work. Under a medium level of priority, the Board will only focus on the matter if novel questions arise while the work that needs Board attention. Finally, under a low level of priority, the Board will spend little or no time on this work, either because it is routine or because it will have little impact on members. Going forward, our expectation is that the vast majority of IOSCO's work will be in the high priority area.

Fifth, with this new process in place, the Board is seeking to ensure that the work we do is both meaningful and has a positive impact for IOSCO and its members. This means that the output of our work should – in most cases – be in the form of either principles, standards, recommendations or guidance. Doing so will provide members with certain benchmarks or guideposts as they continue to develop their individual regulatory systems.

Sixth, under this new approach, for 2017, the Board has agreed upon the following five focus areas:

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.

Finally, in addition to the policy setting work, the Board continues to place significant emphasis on implementation monitoring, capacity building, and IOSCO´s joint work with other international bodies such as the FSB, the Basel Committee on Banking Supervision and the Committee on Payments and Market Infrastructures.

Implementation Monitoring continues to be the primary means for IOSCO to promote full, effective and consistent implementation of the IOSCO Principles and Standards across the IOSCO membership. The outcomes of these efforts provide important feedback for identification of issues and need for further policy work by policy committees.

IOSCO will need to continue its capacity building efforts, which have already benefitted from a high level of Board attention in the past few years and have started to yield results. There is also an expectation from the G20 and the FSB for the standard setting bodies to monitor, assess and review the implementation as well as the effects of the G20/FSB reforms through use of various tools, depending upon the nature and priority of the reform area.

We believe that these changes will continue to evolve and be refined as we seek to be even more focused on key policy issues across the spectrum of the capital markets.

We look forward to any thoughts or comments you may have on our approach.

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.

Inter-Agency Work

IOSCO work with the Bank for International Settlements

BCBS-IOSCO Working Group on Margining Requirements (WGMR)

In 2011, the G20 Leaders called upon the Basel Committee on Banking Supervision (BCBS) and IOSCO to develop consistent global standards for margin requirements for non-centrally cleared derivatives, as part of the global financial reform agenda. In response, the BCBS and IOSCO released in September 2013 the final framework for margin requirements for non-centrally cleared derivatives. Under the globally agreed standards, financial firms and systemically important non-financial entities that engage in non-centrally cleared derivatives would be required to exchange initial and variation margin commensurate with the counterparty risks arising from such transactions. The framework was designed to reduce systemic risks related to OTC derivatives markets, as well as to provide firms with appropriate incentives for central clearing and managing the overall liquidity impact of the requirements.

In February 2014, the BCBS and IOSCO approved the creation of a monitoring group to evaluate the margin requirements and to determine whether elements of the margin standards should be reconsidered. Recognizing the complexity and the impediments to implementing the framework, the BCBS and IOSCO agreed in March 2015 to:

> delay the implementation of requirements to exchange both initial margin and variation margin by nine months; and

> adopt a phase-in arrangement for the requirement to exchange variation margin.

The BCBS and IOSCO also asked WGMR to continue monitoring progress in implementation to ensure consistent implementation across products, jurisdictions and market participants. At the end of 2015 and in early 2017, the Working Group submitted a progress report on implementation based on its monitoring work during 2015 and 2016.

Task Force on Securitization Markets-Cross Sectorial Task Force with the BCBS

IOSCO and the BCBS established the Task Force on Securitization Markets in April 2014 to:

- undertake a wide-ranging review of securitization markets so as to understand how they are evolving in different parts of the world;
- identify factors from across different sectors that may be hindering the development of sustainable securitization markets; and
- develop criteria to identify and assist the financial industry in the development of simple and transparent securitization structures.

The Task Force in 2016 continued its efforts to engage with market participants and encourage industry initiatives relating to the standardization of documentation. WS1, a Task Force working group led by the BCBS, analyzed the relevance of existing simple, transparent and comparable (STC) criteria for the end-investors of short term securitization, enabling BCBS-IOSCO to issue a consultation report on this subject in July 2017.

The Committee on Payments and Market Infrastructures (CPMI)

The Committee on Payments and Market Infrastructures (CPMI) promotes the safety and efficiency of payment, clearing, settlement and related arrangements, thereby supporting financial stability and the wider economy. The CPMI monitors and analyzes developments in these arrangements, both within and across jurisdictions. It also serves as a forum for central bank cooperation in related oversight, policy and operational matters, including the provision of central bank services.

CPMI and IOSCO work together to enhance coordination of standard and policy development and implementation, regarding clearing, settlement and reporting arrangements, including financial market infrastructures (FMIs) worldwide. FMIs, which include central counterparties (CCPs), trade repositories, central securities depositories, securities settlement systems, and payment systems, play an essential role in the global financial system. The disorderly failure of an FMI could lead to severe systemic disruption if it caused markets to cease to operate effectively.

Policy work on CCP risk

In April 2015, the BCBS, the CPMI, the FSB and IOSCO agreed on a CCP workplan to coordinate their respective international policy work aimed at enhancing the resilience, recovery planning and resolvability of CCPs, and to work in close collaboration.

CCP resilience

- A number of substantive priorities with respect to CCP resilience were identified. These priorities included reviewing existing stress testing policies and practices of CCPs and considering the need for, and developing as appropriate, a framework for consistent and comparable stress tests of the adequacy of CCPs' financial resources (including capital) and liquidity arrangements. This framework could involve supervisory stress tests.
- CPMI-IOSCO Policy Standing Group (PSG) serves as the primary forum for this work, regularly interacting with the FSB Standing Committee on Supervisory and Regulatory Cooperation (SRC). To the extent that certain relevant activities were already initiated before the workplan was agreed, the respective focus was adjusted to fully capture the issues identified in the CCP workplan.

CCP recovery planning.

- The The CPMI-IOSCO Principles for Financial Market Infrastructures (FMIs) requires all systemically important FMIs to have a comprehensive and effective recovery plan as the disorderly failure of such an FMI could lead to severe systemic disruptions.
- The work plan includes two substantive priorities with respect to CCP recovery planning, and the PSG is serving as the primary forum for this work, working in close cooperation with the FSB Resolution Steering Group (ReSG). First, a stock-take of existing CCP recovery mechanisms, including loss allocation tools, was conducted as part of the surveys described above. The stock take was used to compare recovery mechanisms across CCPs. Second, CPMI-IOSCO will consider the need for, and develop as appropriate, more granular standards or guidance for CCP recovery planning, taking into account the implementation of the requirements for recovery planning in the CPMI-IOSCO PFMI and the complementing guidance on the recovery of FMIs.

A CPMI-IOSCO consultative report on CCP resilience and recovery was published on 16 August 2016. The report provides more granular guidance on several key aspects of the CPMI-IOSCO CPMI-IOSCO PFMI, with a view to further improving the resilience of CCPs, with respect to governance, credit and liquidity stress testing, coverage of financial resources, margin, a CCP's contributions of its own financial resources to losses and recovery.

Other CPMI-IOSCO Work

Market-wide recommendations:

In 2014, CPMI-IOSCO agreed to do further work on the so-called market-wide recommendations, i.e., recommendations targeted more widely at payment, securities or derivatives markets than at individual FMIs. This work, to be conducted by CPMI-IOSCO PSG, would include:

- a review of a number of the recommendations included in the CPSS-IOSCO Recommendations for Securities Settlement Systems (2001); and
- a gap analysis aimed at determining whether there are other market-wide topics where some form of guidance from CPMI-IOSCO might be helpful.

The PSG is considering the work to be done regarding the market-wide recommendations.

Data harmonization:

In 2014, CPMI-IOSCO created the Harmonization Working Group to develop detailed guidance on harmonization of data elements that are reported to trade repositories and are important for data aggregation by authorities. The guidance should also serve for the development of the uniform global Unique Product Identifier (UPI) and the Unique Transaction Identifier (UTI), which are used to uniquely identify a product or transaction and for reporting to global financial regulators. The sub-streams for the Harmonization Working Group continue to work on the harmonization aspects of their work, which includes workshops and consultations with industry before final guidance is published.

The work of the Harmonization Group is making good progress. To fulfill the mandate, the Harmonization Group launched several public consultations in 2015 and 2016:

- A public consultation on the UTI was issued on 19 August 2015, and was followed by the publication in February 2017 of a final report providing guidance to authorities for setting rules on assigning uniform UTIs.
- A public consultation on harmonization of a first batch of 14 key data elements other than UTI and UPI was published on 2 September 2015. CPMI-IOSCO issued a second public consultation report in 19 October 2016 on a second batch of critical OTC data elements.
- On 17 December 2015, CPMI-IOSCO published a public consultation on the harmonization of the UPI, whose purpose is to uniquely identify OTC derivatives products. It was followed by a second consultation report in August 2016, which set forth proposals on the format of the UPI code and the content and granularity of the UPI data elements that describe the product in a corresponding reference data base.

Cyber resilience in FMIs:

A CPMI-IOSCO Working Group on Cyber Resilience in FMIs (WGCR) was established in September 2014 to look into ways to help both authorities (regulators, overseers) and FMIs to enhance cyber resilience.

Both CPMI and IOSCO had been active separately in investigating certain aspects of cyber risks and how they relate to financial market participants, services and infrastructures. As many issues are of interest to both committees, they agreed to undertake joint work with a specific focus on improving the cyber resilience of FMIs.

On 24 November 2015, CPMI-IOSCO published a consultative report *Guidance on cyber resilience for financial market infrastructures* ("Guidance") for a three month consultation period. The Guidance was finalized in June 2016. The Guidance aims to add momentum and international consistency to the industry's ongoing efforts to enhance FMIs' ability to pre-empt cyber-attacks, respond rapidly and effectively to them, and achieve faster and safer target recovery objectives.

The Guidance represents the first set of internationally agreed principles in the field of financial markets to support oversight and supervision in the area of cyber resilience.

In addition, the WGCR is looking at mechanisms to engender greater collaboration between regulators and overseers, in order to improve information sharing relating to cyber resilience.

CPMI-IOSCO Working Group on Digital Innovations

The working group's purpose is to identify and assess the implications of blockchain, distributed ledgers and related technologies for clearing and settlement arrangements, with particular emphasis on the technical and infrastructure aspects (such as security, scalability and efficiency) of emerging business models, products and services based on these technologies.

The group intends to build on previous work conducted by CPMI-IOSCO and its members in the area of digital innovations.

Clearing deliverable FX instruments:

The clearing of deliverable FX instruments is special from a liquidity management perspective as it involves the simultaneous settlement of obligations in more than one currency. On 5 February 2016, CPMI and IOSCO issued the statement *Clearing of deliverable FX instruments,* which is on the clearing of deliverable FX instruments by CCPs. This statement clarifies the expectations of CPMI and IOSCO – as originally set out in the PFMI – with respect to CCP clearing of deliverable FX instruments and the associated models for effecting their settlement.

Implementation Monitoring:

The CPMI-IOSCO Implementation Monitoring Standing Group continued in 2016 the process of monitoring implementation of the PFMI. In line with the G20's expectations, CPMI and IOSCO members have committed to adopting the 24 principles (the Principles) and the five responsibilities for authorities (the Responsibilities) included in the PFMI. Full, timely and consistent implementation of the PFMI is fundamental to ensuring the safety and soundness of key FMIs and to supporting the resilience of the global financial system. In addition, the PFMI are an important part of the G20's mandate that all standardized OTC derivatives contracts should be centrally cleared, and all OTC derivative contracts reported to trade repositories.

Reviews are being carried out in three stages:

Level 1 assessments are based on self-assessments by individual jurisdictions on how they have adopted the 24 Principles for FMIs and four of the five Responsibilities for authorities within the regulatory and oversight framework that applies to FMIs. Following the initial Level 1 assessments (a report published in August 2013), the first update (a report published in May 2014) and the second update (a report published in June 2015), the third update was conducted in 2016 and the report *Implementation monitoring of PFMI: Third update to Level 1 assessment report* was published on 28 June 2016.

The third update report showed that further progress had been made among those participating jurisdictions that had not completed their implementation measures at the time of the previous update in 2015. In particular, 19 of the 28 jurisdictions had completed their implementation measures for all FMI types (15 jurisdictions in the previous update).

Additional updates to the Level 1 report are planned on a periodic basis and the fourth update started in December 2016.

In parallel with the Level 1 assessments, CPMI and IOSCO are also conducting the Level 2 assessments. *Level 2 assessments* are peer reviews of the extent to which the content of the jurisdiction's implementation measures is complete and consistent with the PFMI.

The first round of these assessments focused on CCPs and trade repositories in the EU, Japan and the US. The associated reports were published in February 2015. The second round of Level 2 assessments covered all FMI types in Australia, and the report was published in December 2015.

Following this, the Level 2 assessments focusing on all FMI types in Singapore and Hong Kong (as of 15 July 2016) commenced in June 2016. Other jurisdictions will be assessed at Level 2 sequentially over time.

Level 3 (Principles) assessments are peer reviews to examine the consistency in the outcomes arising from the implementation of the Principles. Level 3 assessments are thematic in nature. The output from the Level 3 assessments are narrative-based reports, which will draw out key issues related to the consistency of FMIs' outcomes with the Principles, noting any variations in outcomes across FMIs in various jurisdictions.

The first Level 3 assessment on the financial risk management and recovery practices of 10 derivatives CCPs started in July 2015 and a report, *Implementation monitoring of PFMI: Level 3 assessment – Report on the financial risk management and recovery practices of 10 derivatives CCPs*, was published on 16 August 2016. This assessment looked at the implementation of the PFMI, as they relate to financial risk management and recovery practices (i.e., the procedures to follow in case a member defaults).

The report reviewed measures in place at the 10 derivatives CCPs and found CCPs have made important and meaningful progress in implementing arrangements consistent with the standards. Some gaps and shortcomings were nevertheless identified, notably in the areas of recovery planning and liquidity stress

testing. The report also identified a number of other differences in the outcomes of implementation across CCPs. They may reveal differences in interpretation or approach that could materially affect resilience; achieving a level playing field across jurisdictions will be assisted by further guidance on the PFMI outlined in the CPMI-IOSCO consultative report, also published on 16 August 2016.

Joint work by BCBS, CPMI, FSB and IOSCO

Study Group on Central Clearing Interdependencies (SGCCI)

A joint BCBS, CPMI, FSB and IOSCO study group was established in July 2015 to identify, quantify and analyze interdependencies between CCPs and major clearing members and any resulting systemic implications. The primary focus of the group is on interdependencies that may have implications for global financial stability.

Interdependencies could include, for instance:

- financial obligations of clearing members, such as default fund contributions, initial and variation margins, assessment rights, etc.
- financial interdependencies with other financial institutions, which can be clearing members, stakeholders, such as investment counterparties, liquidity providers and deposit banks; and
- operational interdependencies, such as links with investment counterparties, custodians, settlement agents, etc.

Interdependencies explored include those that pose risks to CCPs and/or that pose risks to participants or other stakeholders. Once these key interconnections have been mapped, the potential for contagion effects within this landscape may be explored.

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

Mounir Gwarzo
> Chair of the Africa/Middle-East Regional Committee
> Director General of the Securities and Exchange Commission, Nigeria

During its meetings in 2016, AMERC focused on the major issues and risks facing securities markets in the region and sought to increase the regulatory capacity of members to meet those challenges. The Committee successfully changed the structure of its meetings to foster more issue-based and informed debates, as well as to promote a greater exchange of knowledge among its members. AMERC also sought to increase its contribution to IOSCO policy and capacity building work.

AMERC gave particular thought in the year to how to boost market listings, increase liquidity, improve corporate governance and widen the retail and institutional investor base of the region´s markets. To further these initiatives, it created a working group to study the status of listings on AMERC exchanges. But it never lost sight of the critical events affecting securities markets worldwide, and held in-depth discussions on the potential impact on them of higher interest rates, international capital flows, liquidity shortages and cyber threats. It also explored these issues with outside experts.

IOSCO committee chairs, Board members and other market experts attended AMERC´s meetings in Mauritius (February) and Lima (May) to discuss the latest capacity building initiatives. These included the IOSCO online toolkit, the pilot capacity building hub in Malaysia and the Global Certificate Program for Regulators of Securities Markets, jointly launched in 2016 by IOSCO and the Program on International Financial Systems at Harvard Law School.

AMERC also participated actively in IOSCO policy debates, including discussions on the revision of IOSCO´s Principles and Methodology and the organization´s transition to an enhanced version of the Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (EMMoU). The EMMoU extends IOSCO´s cooperation and information sharing framework to include new enforcement powers regarding audit information, compelling testimony, freezing assets, and internet and telephone records.

Importantly, AMERC recommended to the Board that IOSCO include Arabic as an official language, alongside English, Spanish, Portuguese and French. I am happy to say that the proposal was accepted and approved by the Presidents Committee, confirming IOSCO´s commitment to promoting inclusiveness and a stronger membership through greater diversity.

Finally, I am grateful to AMERC members for re-electing me for another term as Chair. At the same time, I would like to extend special thanks to Bert Chanetsa, who retired from the Financial Services Board of South Africa. His invaluable participation in AMERC and the Growth and Emerging Market Committee helped enrich IOSCO´s trajectory as a truly international and inclusive organization.

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

Ryozo Himino
> Chair of the Asia-Pacific Regional Committee

In 2016, the Asia-Pacific Regional Committee (APRC) exchanged views among its members on regulatory, supervisory and enforcement issues, provided the region's view to the IOSCO Board, and enhanced cooperation between Asia-Pacific regulators and regulators from other regions.

In its meetings, the APRC members exchanged views on such topics as market volatility, capital flows, macro-economic developments and emerging risks in the region, capacity building, infrastructure finance, entrepreneurial/start-up finance, and FinTech. In the evening of the Brexit vote day (23 June), the Committee had an ad-hoc conference call to compare notes on the market developments in the region. APRC members had regular exchanges of views on enforcement and supervisory issues through the Committee's two relevant working groups.

The APRC had a face-to-face meeting or a conference call in advance of each IOSCO Board meeting and exchanged views on the Board agenda items of members' interest, such as the launch of the Enhanced Multilateral Memorandum on cooperation and information exchange, the revision of the IOSCO Principles and Methodology and the establishment of Board priorities. The outcome of the discussion was provided to the Board through the Committee's Board representatives.

The APRC also maintained an ongoing dialogue with both the European Commission and the US Commodities Futures Trading Commission (CFTC) on cross-border financial reforms and regulation, particularly regarding the equivalence assessments of regional supervisory and regulatory regimes.

In the December 2016, the APRC responded to a request for comments from the CFTC on the proposed rule on *Cross-Border Application of the Registration Thresholds and External Business Conduct Standards Applicable to Swap Dealers and Major Swap Participations*, aiming to promote globally coordinated regulations that help foster efficient and resilient OTC derivatives markets.

The APRC helped, through its Working Group on Cross-Border Issues, organize the first EU-Asia-Pacific Forum on Financial Regulation in Singapore in October. The aim of the forum was to enhance information exchange between regulators from the EU and the Asia-Pacific region on a number of key aspects related to cross-border cooperation.

Representatives from the European Commission (DG FISMA), the European Securities and Markets Authority (ESMA) and members of the IOSCO APRC attended the forum. Delegates covered three topics that went to the heart of the EU-Asia-Pacific relations: the cross-border implications of financial services regulatory frameworks; asset management and funds passporting; and opportunities in Fintech. Regulators around the table and the EU shared their experiences and exchanged views on global developments, confirming the role of the Forum as a useful platform for collaboration between both regions.

Report by the Chairman of the European Regional Committee (ERC)

Jean-Paul Servais
> Chair of the European Regional Committee
> Chairman of Belgium's Financial Services and Markets Authority (FSMA)

In 2016, the European Regional Committee (ERC) provided an important forum for IOSCO´s European members to exchange views on developments in the region´s securities markets. The ERC Chair, together with the Swedish Finansinspektionen (ERC Vice Chair) and the Central Bank of Ireland, represents the ERC at the IOSCO Board.

As the largest regional committee in IOSCO, with ten members on the Board, the ERC gave voice to European views on a range of global issues during the year, from developments in the growing asset management industry to market conduct matters and emerging risks in securities markets.

Like other regional committees, the ERC was updated regularly during the year on the activities of IOSCO policy committees and task forces. IOSCO also informed and consulted ERC members on the revision of the IOSCO Principles and Assessment Methodology, as well as on the development of the Enhanced Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (E-MMoU). All but four of the 50 ERC members are signatories to the MMoU, the instrument used by securities regulators to combat cross-border fraud and misconduct, and predecessor of the E-MMoU.

At its first meeting of the year in January in Stockholm, ERC members opined on both policy priorities and organizational matters at IOSCO, IOSCO capacity building initiatives and measures to enhance transparency at IOSCO.

In the ERC meeting in May in Lima, ERC members discussed recent developments affecting the EU Capital Market Union, ESMA initiatives and the progress made on the regulatory reforms in the single market, including the Markets in Financial Instruments Directive (MiFID) II, which goes into effect in January 2018. The objective of MiFID II is to make European Union (EU) financial markets more robust and transparent. Its implementation is having consequences within the EU and beyond its borders.

In its meeting in Prague in September, the ERC discussed the risks involved in the offering of OTC derivative products to retail investors and flagged its concerns in this regard to the IOSCO Board and the relevant policy committees.

During a conference call on 17 December, ERC members were consulted on the implementation plan for the Enhanced Multilateral Memorandum of Understanding (E-MMoU).

At some of it meetings, the ERC also heard presentations by selected stakeholders on specific topics of interest for the members.

I would like to take this opportunity to thank my ERC colleagues for their valuable contributions to this committee and its work. Thanks to our collective effort, securities regulators in Europe are now more informed and better prepared to take on the challenges we face in the coming years.


Lima 2016
OSCO

Report from the Chair of the Inter-American Regional Committee (IARC)

Jaime González Aguadé
> Chair of the Inter-American Regional Committee
> President of the National Banking and Securities Commission (CNBV) of Mexico

The Inter-American Regional Committee (IARC) provides an important forum for members to exchange ideas and experiences on a regional level while analyzing the trends that shape the future of international financial markets. During 2016, IARC members brought a regional perspective to IOSCO debates on financial technology, digital disruption, automated investment advice and other developments affecting securities markets and regulation worldwide.

IARC members were consulted in 2016 on two major IOSCO projects: the drafting and implementation of the Enhanced Multilateral Memorandum of Understanding (EMMoU) on the Cooperation and Exchange of Information and the revision of the core IOSCO Principles and Methodology. Members also used IARC as a forum for discussing the potential challenges for regional regulators of becoming signatories to the EMMoU.

On a regional level, IARC members in the year furthered their efforts to integrate financial markets in Latin America, and cooperate in the area of regulation and supervision, and on regional capacity building initiatives.

At the IARC meeting in Lima in May 2016, the representative of the Superintendencia de Valores of the Dominican Republic updated IARC on the progress made with Panama and El Salvador to integrate the three securities markets through remote brokers. El Salvador and Panama signed an agreement in September 2015 that laid down the model for the integration process, marking a giant step forward in regional cooperation and paving the way for other jurisdictions to join the project. Members also discussed the possibility of creating a single central counterparty in Central America under this integrated market model.

IARC held its second meeting in the year in November in Nassau, the Bahamas, in conjunction with the Council of Securities Regulators of the Americas (COSRA). These joint meetings constitute a valuable mechanism for strengthening cooperation among regulators on the continent and promoting cross border cooperation among IOSCO and non-IOSCO securities authorities and self-regulatory organizations. These meetings also offer an opportunity for us to discuss market trends, share common supervisory concerns and exchange views on recent regulatory developments elsewhere in the world.

In Nassau, participants discussed ways to open up their training seminars and reading materials to securities regulators throughout the region, including launching a pilot project that would allow IARC authorities to participate in the North American Securities Administrators Association (NASAA) and creating a virtual hub with the assistance of the Interamerican Development Bank. They also exchanged views on innovation and new technologies, including bitcoin and regulatory sandboxes, and discussed timely issues such as investor protection, liquidity in secondary markets, and systemic risk that may arise in a low interest rate environment.

Finally, I would like to thank my colleagues for electing me to another two-year term as Chair of IARC (2016-2018) in mid-March 2016 elections. Also elected were Lilian Rocca Carbajal, Superintendencia del Mercado de Valores of Peru, as Vice Chair, and the Financial Services Commission of Jamaica as the IARC representative to the IOSCO Board. The new term began with the inaugural meeting of the new IOSCO Board in May 2016 in Lima, Peru.


PERU
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OICU-IOSCO
IOSCO IARC MEETING
Lima, Peru

Report on the Assessment Committee

> Chair: **Mr. Amarjeet Singh, Chief General Manager, Securities and Exchange Board of India**
> Vice Chair: **Mr. Jean Lorrain, Director, International Affairs, Autorité des marchés financiers, Quebec**

A wave of standard setting in the wake of the global financial crisis has given Implementation Monitoring (IM) a fresh impetus in recent years. The gathering momentum of IM spurred IOSCO to identify it as one of the six priority areas in the IOSCO Strategic Direction 2015 to 2020.

IM is largely entrusted to the Assessment Committee (AC), which is mandated to promote full, effective and consistent implementation of Principles and Standards across IOSCO membership. Since its inception in 2012, the Committee has made rapid progress and played an impactful role in the financial regulatory world.

The year 2016 was witness to several important milestones in AC's exciting journey in the assessment universe.

Thematic Reviews

Thematic Reviews (TRs) form a key component of the AC's program.

During the year, the AC in collaboration with Committee 3 on Regulation of Market Intermediaries made significant progress on a TR on adoption of *Recommendations regarding the Protection of Client Assets*. Thirty-seven jurisdictions are participating in this review.

The AC also continued to monitor the progress on implementation of the IOSCO Principles for Financial Benchmarks:

> It completed and published the second review of implementation of these Principles by Administrators of the Euro Inter-Bank Offer Rate (EURIBOR); the London Inter-Bank Offer Rate (LIBOR); and the Tokyo Inter-Bank Offer Rate (TIBOR);

> It progressed the follow-up review of these Principles in respect of the WM/Reuters 4 p.m. Closing Spot Rate.

During 2016, the AC also conducted follow-up work on its Money Market Fund (MMF) and Securitization reviews for an update to the Financial Stability Board (FSB). These updates are included in the FSB's dashboard on implementation monitoring for G20 leaders.

Country Reviews

The AC completed and published the final report *Country Review of Republic of Trinidad and Tobago*, which is its second country review. The latest review – sought by the Trinidad and Tobago Securities and Exchange Commission – assessed implementation of select IOSCO Principles.

The AC also made significant progress on the country review of Sri Lanka, aimed at assessing implementation of all IOSCO Principles (except Principle 38 relating to clearing and settlement).

Updating the IOSCO Principles and Methodology

Maintaining and periodically updating the IOSCO Principles and Methodology through the Implementation Task Force Sub-Committee (ITFSC) is another important responsibility of the AC. During 2016, the ITFSC, led by Philipp Sudeck of BaFin, was actively engaged in revising the Methodology.

The ITFSC followed a structured and collaborative approach and made substantial progress. The sub-committee conducted consultations with the policy committees and task forces and the regional Committees, GEM Committee and CPMI-IOSCO on the proposed revisions. The revision was approved at the 2017 Annual Conference.

New Initiatives

The AC has been considering augmenting its tool kit by introducing a new, efficient and fairly reliable monitoring mechanism, particularly in the context of its resource constraints. Driven by this thinking, the AC has developed a new tool, christened ISIM (IOSCO Standards Implementation Monitoring) to monitor the implementation of the IOSCO Principles based on self-assessments. The ISIM program is expected to enhance the implementation monitoring in a resource efficient manner. The Board approved this initiative in 2016.

During 2016, the AC took another significant initiative by taking over from the Financial Stability Board (FSB) the Implementation Monitoring Network (IMN) survey relating to the securities market reform areas ***(Box-1)***.

Box - 1: IOSCO's engagement with IMN

Since 2010, the FSB has conducted an annual IMN survey of FSB jurisdictions, asking them to self-report the status of implementation of G20/FSB post-crisis recommendations in the areas not designated as priority areas.

A number of these recommendations relate to securities markets. For the 2016 survey, the AC took over for the first time the analysis for recommendations that pertain to securities markets, viz:

i. Hedge funds;
ii. Structured products and securitization;
iii. Oversight of credit rating agencies;
iv. Measures to safeguard the efficiency and integrity of markets; and
v. Supervision and regulation of commodity derivative markets.

This work also led IOSCO to publish separately its own report *Implementation Report: G20/FSB Recommendations related to Securities Markets* in October 2016.

The coming year

The AC's work in the coming year will be guided by the Board priorities decided upon in accordance with new Board procedures. For its ISIM program in 2017, the AC is conducting a monitoring exercise on a carefully chosen set of principles across a wide range of jurisdictions. The AC will also continue with its other streams of work, including new thematic reviews and follow-up reviews /updates. The AC will seek to improve upon the IMN survey relating to securities markets, as it continues this work stream. In line with its dynamic approach, the AC will continue to reflect on how to improve its effectiveness and add new products to its tool kit.

Further, mindful of the need to enhance its assessments going forward, the AC is contemplating taking up level 2 reviews involving monitoring of consistency in implementation. The AC is also considering developing its capacity for assessing the effectiveness of reforms, to meet FSB expectations.

Finally, the AC would like to thank and to acknowledge the stellar contribution made by Steven Bardy (and his team at ASIC), who, as Chair of the AC from 2012 to 2016, laid its foundation, paving the way for the committee´s many achievements.

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

> Chair: **Mr. Jean-François Fortin (Québec AMF)**
> Vice Chair: **Ms. Jane Attwood (UK FCA)**

The *IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information* (MMoU) represents a common understanding among its signatories of how they should consult, cooperate, and exchange information for the purpose of regulatory enforcement regarding securities markets.

The Screening Group is tasked with reviewing MMoU applications to establish whether applicants meet the requirements for becoming signatories to the IOSCO MMoU. At the same time, the IOSCO General Secretariat offers guidance and other assistance to non-signatories to encourage them to move forward with their applications.

MMoU Compliance

In 2016, three IOSCO members signed the MMoU, bringing the total number of signatories to 109 by year end.

> Superintendencia de Compañías, Valores y Seguros (SCVS) Ecuador, February
> Autoriti Monetari Brunei Darussalam (AMBD) Brunei, March
> Turks & Caicos Islands Financial Services Commission (TCIFSC) Turks & Caicos Islands, March

Another three members signed in mid-January 2017:

> Financial Services Regulatory Authority (FSRA) Abu Dhabi

> Qatar Financial Centre Regulatory Authority (QFCRA) Qatar
> Capital Markets Authority (CMA) Uganda

In mid-January 2017, sixteen members were listed on Appendix B, the list of members who lack the legal authority to fully comply with the MMoU provisions, but are committed to becoming signatories. One member had not yet agreed to be listed on that Appendix, and another application was in an initial review process. At that time, most of the 18 ordinary members that remained non-signatories to the MMoU had taken steps to address through legislative amendments the issues preventing them from complying with the MMOU requirements.

The growing number of signatories has increased cross-border cooperation, enabling regulators to investigate a growing number of insider traders, fraudsters and other offenders. In 2003, a total of 56 requests for assistance were made by IOSCO members pursuant to the MMoU; the annual figure increased to 3,203 in 2015 and to 3,330 in 2016.

Enhanced MMoU

The current MMoU has set the benchmark for international cooperation among securities regulators on enforcement matters. By facilitating information sharing and cooperation, the MMoU enables the detection and prosecution of fraud and illegal conduct, deters wrongdoers and prevents regulatory arbitrage.

But since 2002, when the current MMOU was established, significant change has swept across financial markets, driven by new technologies and regulation, and the growing role of market-based finance in the global economy. These changes propelled IOSCO to develop an enhanced standard that goes beyond the MMoU and takes into account these recent market developments.

At the annual meeting in Lima in May 2016, the IOSCO Presidents Committee adopted a resolution approving the text of the Enhanced MMoU (EMMoU), which builds upon the current MMoU. IOSCO has extended the MMoU information-sharing framework to include five new enforcement powers that it believes are necessary to increase cooperation and sustain the integrity and stability of markets. Known as the ACFIT powers, these powers will enable members to:

A: Obtain and share **Audit** work papers, communications and other information relating to the audit or review of financial statements;

C: **Compel** physical attendance for testimony (by being able to apply a sanction in the event of non-compliance);

F: **Freeze** assets if possible or, if not, advise and provide information on how to freeze assets, at the request of another signatory;

I: Obtain and share existing **Internet** service provider records (not including the content of communications), including with the assistance of a prosecutor, court or other authority, and to obtain the content of such communications from authorized entities; and

T: Obtain and share existing **Telephone** records (not including the content of communications), including with the assistance of a court, prosecutor, or other authority, and to obtain the content of such communications from authorized entities.

In addition, the EMMoU envisages the obtaining and sharing of existing communications records held by regulated firms.

IOSCO began to accept applications from signatories to the EMMoU in April 2017.


IOSCO
M CHAIRMAN
BOARD CHAIRMAN
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(FSC)
SECRETARY GENERAL

Capacity Building

In September 2013, IOSCO established the Board-level Capacity Building Resources Committee to manage the implementation of a capacity building strategy focused on technical assistance, and education and training for members, especially in emerging markets jurisdictions.

In September 2013, IOSCO established the Board-level Capacity Building Resources Committee to manage the implementation of a capacity building strategy focused on technical assistance, and education and training for members, especially in emerging markets jurisdictions.

Based on a comprehensive survey of capacity building priorities and input provided by the Growth and Emerging Markets (GEM) Committee, the IOSCO General Secretariat prepared a draft workplan and an accompanying resourcing strategy, which were subsequently approved by the IOSCO Board.

Main activities included the creation of the Online Toolkit for Regulatory Capacity Building (Online Toolkit) and the organization of two additional regional

training seminars. These capacity building activities complemented the long-standing and on-going education and training activities that IOSCO offers its members and have been resourced by a one-off additional fee from nominated Board members.

The Online Toolkit was launched on 8 March 2016 and is available to all IOSCO members. The Online Toolkit includes two initial components risk-based supervision and enforcement, the two top priorities identified by growth and emerging markets members. Each component consists of numerous sections, including modular guidance; standards (derived from IOSCO Reports); case studies and member practices; webinars and presentations; and bibliography and academic research – all of which provide useful tools for building capacity. The purpose of the toolkit is to assist IOSCO members in their efforts to develop and implement effective regulatory frameworks for capital markets regulation. The toolkit is designed to offer IOSCO members information in one readily available place to inform and guide their own regulatory efforts.

Two regional seminars complemented the toolkit focusing on the same two topics, risk-based supervision and enforcement.

The training seminar for the Africa/Middle-East region was hosted by the Qatar Financial Markets Authority between 26-28 January 2016 in Doha, Qatar. This seminar on *Risk-Based Supervision and SME Financing through Capital Markets* was attended by around 65 participants from some 15 different jurisdictions.

The training seminar for the Asia-Pacific region was hosted by SEBI of India and its National Institute of Securities Markets (NISM) between 3-5 February 2016 in Mumbai, India. Some 70 participants from around 20 different jurisdictions attended this seminar on *Enforcement, Cooperation and the IOSCO MMoU*.

IOSCO Research

The Research Function was set up in 2010 to assist IOSCO in its efforts to identify, monitor and manage systemic risks. The IOSCO Strategic Direction 2015-2020 expanded the scope of this research mission to go beyond financial stability and include IOSCO´s two other core objectives: investor protection and fair, efficient and transparent markets.

Securities markets are characterized by rapid change and financial innovation. Securities regulators in their jurisdictions, and IOSCO at a global level, rely on the Research Function to help keep them informed of potential risks arising from new products, business models, activities, and participants. The Research Function helps IOSCO focus its strategic policy agenda and provides insights for policy work.

The Research Function consists of the Committee on Emerging Risks (CER) and a small Research Department at the General Secretariat, headed by Werner Bijkerk. In October 2016, Paul Redman succeeded Jennifer Marietta-Westberg of the SEC as the chair of the CER. Benedicte Nolens of the Hong Kong SFC is the CER Vice Chair.

The identification of global risks

During 2016, the Research Function prepared the *IOSCO Research Report on Financial Technologies (Fintech)*. The report, which was published in February 2017, is based on extensive market intelligence and surveys, interviews with experts in major financial centers, roundtable discussions on risk with industry and regulators, input from other IOSCO committees, including the Growth and Emerging Markets Committee, and risk reports and presentations by experts.

The report describes a variety of innovative business models and emerging technologies that are transforming the financial services industry, including:

- financing platforms: peer-to-peer lending and equity crowdfunding;
- retail trading and investment platforms, including robo-advisers and social trading;
- institutional trading platforms, with a specific focus on innovation in bond trading platforms; and
- distributed ledger technologies, including application of the blockchain technology and shared ledgers to the securities markets.

The report analyzes both the opportunities and risks that each of these new technologies presents to investors, securities markets and their regulators.

The report analyzes both the opportunities and risks that each of these new technologies presents to investors, securities markets and their regulators.

Data collection and governance

Data on financial markets is available to members and the public on the research and statistics portal of the IOSCO website. Having more available data will enable regulators to better monitor emerging risks in securities markets. During 2016, the CER continued to work on a number of data related initiatives including:

- updating a mapping of the data available to its members:
- surveying its members regarding the data available specific to asset management, to help inform the ongoing debate on this industry: and
- gathering information from its members about data governance practices and approaches at regulatory agencies.

Outreach, debate, training and education, and capacity building

In 2016, staff of the Research Department participated on panel presentations and provided training at meetings and events held by IOSCO members, other regulatory organizations, and market participants.

Participation in other fora for identifying global systemic risk

In its capacity as global standard setter for securities market regulation, IOSCO supports the global risk identification and mitigation efforts of the G20, the Financial Stability Board (FSB), the International Monetary Fund (IMF), the Committee on Payments and Market Infrastructures (CPMI) and other organizations that are tackling similar issues, such as the European Systemic Risk Board (ESRB) and the European Central Bank (ECB). To that end, the staff of the Research Department and the Chairman of the CER actively engage with these organizations and institutions by providing input and making presentations about potential risks in securities markets.

Ultimately, efforts to identify, monitor and mitigate risks throughout the financial system should help promote financial stability by detecting vulnerabilities, improving investor protection and facilitating capital formation.

IOSCO´s Global Education and Training Program

IOSCO is uniquely positioned to help its members prepare for the regulatory challenges ahead. In response to a growing demand from members - and in particular emerging markets - IOSCO Education and Training continues to build the regulatory capacity of its members by offering new and innovative seminars and workshops that draw on the expertise of IOSCO policy committees, industry practitioners, academia and the regulatory community. This program continues to be a primary vehicle for advancing IOSCO´s regulatory goals and the implementation of its standards and principles.

IOSCO Education & Training (E&T) Activities 2016

1. IOSCO Pilot Capacity Building Program

Two training seminars were organized in 2016 under the aegis of the IOSCO Pilot Capacity Building Program, in addition to the launch of the IOSCO Online Toolkit for Regulatory Capacity Building (Online Toolkit).

1. The training seminar for the Africa/Middle-East region was hosted by the Qatar Financial Markets Authority on 26-28 January 2016 in Doha, Qatar.

2. The training seminar for the Asia-Pacific region was hosted by SEBI and its National Institute of Securities Markets (NISM) on 3-5 February 2016 in Mumbai, India (More information on page 59).

2. Global Certificate Program for Regulators of Securities Markets

The first edition of Phase I of the two-phase IOSCO/PIFS (School Program on International Financial Systems) at Harvard Law School Global Certificate Program for Regulators of Securities Markets took place at IOSCO´s premises in Madrid, Spain, on 17-28 October 2016, and covered the fundamentals and intricacies of securities regulation and compliance. The program was fully booked with some 100 participants from almost 50 different jurisdictions. Throughout the two-week program, more than two dozen speakers shared their expertise and experiences with the participants, using lectures, case studies, and discussions.

The first edition of Phase II took place at Harvard Law School in Cambridge, Massachusetts, US, on 4-9 December 2016, and covered current and future regulatory challenges and emerging issues. Harvard academics, securities regulators and senior public policy makers participated in this phase. Of the 45 participants from almost 30 different jurisdictions, 40 had already completed both weeks of Phase I in Madrid (17-28 October). Each of these 40 participants received, at the end of the week, the first Certificates for completing the full three-week program and studying the required online learning materials, which included the modules of the IOSCO Capacity Building Online Toolkit.

3. Joint IOSCO / Financial Stability Institute (FSI) Seminar

The 11th IOSCO/FSI Seminar on *Trading Book Issues and Market Infrastructure* was jointly hosted by IOSCO and the Financial Stability Institute (FSI) from 16-18 November 2016 in Madrid, Spain. The seminar was attended by almost 90 staff from central banks, supervisory authorities and securities commissions from over 40 different jurisdictions. The seminar focused on the work by the Committee on Payments and Market Infrastructures (CPMI) and IOSCO on resilience and

recovery of central counterparties, the implications of digital innovations and cyber resilience for financial market infrastructures, and the fundamental review of the trading book by the Basel Committee on Banking Supervision (BCBS) and the implementation challenges of the new trading book regulation. In addition, speakers discussed issues related to asset management, data harmonization, cross-border regulation, CPMI-IOSCO work on implementation monitoring, and recent global enforcement cases.

4. Joint IFIE / IOSCO Investor Education Conference

The 8th joint IFIE-IOSCO Investor Education Conference was held from 12-14 June 2016 in Istanbul, Turkey, and was hosted by the Turkish Capital Markets Association (TCMA). The theme of this year´s conference was *Global FC/IE Strategies and Implementation: Meeting Needs and Bridging Gaps*. The conference, which attracted almost 100 global participants, featured practical skill development sessions and workshops, multi-media financial capacity and investor education (FC/IE) work from around the globe, as well as panel discussions on changing economic and market dynamics and implications for FC/IE work, behavioral economics research and practice, and building and articulating value and ROI of FC/IE efforts over time.

5. IOSCO AMCC Training Seminar

The 9th edition of the IOSCO Affiliate Members Consultative Committee (AMCC) Training Seminar took place from 27 to 28 September 2016 in Chicago, hosted by the National Futures Association (NFA). With over 130 participants, the seminar reached its maximum capacity. Seminar topics included: key elements of a sound risk-based supervision system; tools and resources for enforcement and investigations; using data and data analytics to support regulatory action; recent case studies in market surveillance; latest developments in cybersecurity and the role of regulators in dealing with this critical issue; and successful innovative approaches to retail investor protection.

6. APEC FRTI Regional Seminar

The APEC Financial Regulators Training Initiative (FRTI) Regional Seminar on *Supervision of Market Intermediaries:* A Risk-Based Approach was hosted by the Securities Commission Malaysia in Kuala Lumpur on 7-10 November 2016. Presenters from SC Malaysia, MIntegrity, Dubai Financial Services Authority (FSA), EY Malaysia and the IOSCO General Secretariat participated in this four-day program, which

was attended by over 70 participants from almost 20 different jurisdictions.

7. Seminar on the IOSCO Principles and the MMoU

The Autoridad de Supervisión del Sistema Financiero (ASFI) from Bolivia and IOSCO organized jointly an International Seminar on the IOSCO Principles and the MMoU on cooperation and the exchange of information. The Seminar took place on 10-11 November 2016 and was hosted by ASFI in La Paz, Bolivia. Presenters from the IOSCO General Secretariat and the Spanish CNMV made indepth presentations on the IOSCO Principles and the MMoU and their importance and relevance. The seminar was attended by approximately 220 participants from the Bolivian regulator and the country´s financial sector. On 11 November, a restricted session for ASFI officials was held to discuss international cooperation and the IOSCO MMoU.

8. GEM Committee Training Contributions

Regulatory Workshops

The Growth and Emerging Markets (GEM) Committee of IOSCO continued in 2016 organizing Regulatory Workshops for all IOSCO members. In conjunction with the 2016 Annual GEMC Conference in Bali, IOSCO held its first ever cyber simulation workshop on 20 January 2016. The one-day interactive practical GEMC regulatory workshop was designed specifically for securities market regulators from emerging market jurisdictions. The workshop sought to strengthen cyber resilience in light of the risks arising from an increasingly digitalized and inter-connected financial system. Eighty-three regulators from 40 jurisdictions participated in interactive activities and cyber-drills, which helped them to understand how to deal with those risks.

The 2016 IOSCO Annual Conference in Lima also featured three regulatory workshops: on Fintech and innovation hubs (159 participants), on audit quality (128 participants) and on quality of data (102 participants).

IOSCO Corporate Bond Markets (CBM) Outreach Program

In 2013 IOSCO launched a Corporate Bond Markets (CBM) Outreach Program in collaboration with the World Bank. Since then, CBM workshops have taken place in the Africa/Middle-East, Asia-Pacific and European regions, and a workshop for the Inter-American region is being planned for 2017.

General Information

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

The objectives of IOSCO's members are:

> to cooperate in developing, implementing and promoting adherence to internationally recognized and consistent standards of regulation, oversight and enforcement in order to protect investors, maintain fair, efficient and transparent markets, and seek to mitigate systemic risks;

> to enhance investor protection and promote investor confidence in the integrity of securities markets, through strengthened information exchange and cooperation in enforcement against misconduct and in supervision of markets and market intermediaries; and

> to exchange information at both global and regional levels on their respective experiences to assist the development of markets, strengthen market infrastructure and implement appropriate regulation;

Structure of IOSCO

The Presidents Committee, as the plenary body of IOSCO, meets once a year during the IOSCO Annual Conference and is attended by ordinary and associate members. Affiliate members attend the second half of the meeting.

The Board is the governing and standard setting body of IOSCO. As of the IOSCO Annual Meeting in May 2016, the IOSCO Board is composed of 34 members:

a) The 18 members from jurisdictions with the largest markets (based on measures of equity market capitalization, debt market issuance, assets under management and derivatives trading),

b) The Chair and the two Vice Chairs of the Growth and Emerging Markets (GEM) Committee,

c) the Chairs and the Vice Chairs of the four Regional Committees;

d) one member elected by the GEM Committee from its membership;

e) one member elected by each of the four regional committees from their Memberships.

Ashley Alder, the Chief Executive Officer, Securities and Futures Commission, Hong Kong, took over as Chair at the Board meeting in Lima, Peru in May 2016. He is supported by two Vice Chairs; Jean-Paul Servais, Chairman, Financial Services and Markets Authority, Belgium (elected by the Board in May 2016) and Ranjit Ajit Singh, Chairman of the Securities Commission Malaysia (ex-officio as GEM Chair).

The Growth and Emerging Markets Committee (GEM Committee) is the largest committee within IOSCO, representing 75% of the IOSCO's ordinary membership. Ranjit Ajit Singh, Chairman, Securities Commission Malaysia, is the Chair of the GEM Committee. The two Vice Chairs are Leonardo Pereira, Chairman, Comissão de Valores Mobiliários, Brazil, and Mr. Marcos Ayerra, Chairman, Comisión Nacional de Valores, Argentina. The GEM Committee seeks to promote the development and greater efficiency of emerging securities and futures markets by establishing principles and minimum standards, providing training programs and technical assistance for members and facilitating the exchange of information and transfer of technology and expertise.

The GEM Committee comprises 87 members that include the world's fastest growing economies and 10 of the G-20 members. Emerging economies are expected to represent a growing portion of IOSCO membership as new members continue to join.

IOSCO is the one of the few international standard setters that has a committee dedicated to emerging market issues. This inclusiveness increases IOSCO's effectiveness and positions it to play a bigger role in shaping the global regulatory framework. The Chairman of the GEM Committee is one of the IOSCO representatives on the Financial Stability Board Plenary. The GEM Committee also has a seat on the IFRS Foundation Monitoring Board.

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

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

Self-regulatory organizations (SROs) and other affiliate members (see below for a full description) are members of the Affiliate Members Consultative Committee (AMCC). IOSCO recognizes the importance of maintaining a close dialogue with its affiliate membership, and of ensuring that their input into IOSCO's policy development work is sought and encouraged.

Annual Conference

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

Membership Categories and Criteria

Categories

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

The three categories are:

> Ordinary;
> Associate; and
> Affiliate.

Ordinary

A national securities commission or a similar governmental body with significant authority over securities or derivatives markets is eligible for ordinary membership of the organization, provided it is a signatory to the IOSCO Multilateral Memorandum of Understanding (MMoU) on cooperation and exchange of information. Where there is no such national authority, provincial authorities with authority over securities or derivatives markets are eligible for ordinary membership, provided they are MMoU signatories. If there is no governmental regulatory body in a country, a self-regulatory body, such as a stock exchange from that country, is eligible for ordinary membership of the organization.

Each ordinary member of the organization is a member of the Presidents Committee and has one vote at meetings of that committee and any other committees to which they belong. The Presidents Committee meets yearly at the annual conference.

In the case of a country where the subdivisions have exclusive jurisdiction over securities, the regulatory bodies of the subdivisions of that country that are ordinary members shall have a maximum of three votes for all the subdivisions together in elections in meetings of the Presidents Committee, IOSCO Board, Growth and Emerging Markets Committee, regional committees, and in meetings of any other committee or on any other occasion where elections are held.

Associate

The following are eligible for associate membership of the organization:

> supranational governmental regulators;
> subnational governmental regulators where there is a national governmental regulator;
> intergovernmental international organizations and other international standard setting bodies;
> other governmental bodies with an appropriate interest in securities regulation;
> national governmental regulators who are not MMoU signatories and who are not ordinary members; and
> associations that consist of the public regulatory bodies.

Associate members may attend and speak at meetings of the Presidents Committee.

Affiliate

The following bodies are eligible for affiliate membership of the organization.

> self-regulatory organizations (SROs);
> securities exchanges;
> financial market infrastructures (including clearing and settlement agencies);
> international bodies other than governmental organizations with an appropriate interest in securities regulation;
> investor protection funds and compensation funds; and
> any other body with an appropriate interest in securities regulation that the IOSCO Board may decide on for the purpose of furthering the objectives of the organization.

Affiliate members may attend part of the Presidents Committee meeting to hear detailed reports on the work and key developments of the organization. Affiliate members are not entitled to vote at the Presidents Committee meeting.

Contact Details

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Website: www.iosco.org

IOSCO Members

Ordinary Members (126)

AGENCY	COUNTRY
Albanian Financial Supervisory Authority	ALBANIA
Alberta Securities Commission	CANADA
Commission d'Organisation et de Surveillance des Opérations de Bourse	ALGERIA
Institut Nacional Andorra de Finances	ANDORRA, PRINCIPALITY OF
Comisión Nacional de Valores*	ARGENTINA
Central Bank of Armenia	ARMENIA
Australian Securities and Investments Commission*	AUSTRALIA
Financial Market Authority	AUSTRIA
Securities Commission of The Bahamas	BAHAMAS, THE
Central Bank of Bahrain	BAHRAIN, KINGDOM OF
Bangladesh Securities and Exchange Commission	BANGLADESH
Financial Services Commission	BARBADOS
Financial Services and Markets Authority*	BELGIUM
Bermuda Monetary Authority	BERMUDA
Autoridad de Supervisión del Sistema Financiero	BOLIVIA
Securities Commission of the Federation of Bosnia and Herzegovina	BOSNIA AND HERZEGOVINA, FEDERATION OF
Comissão de Valores Mobiliários*	BRAZIL
British Columbia Securities Commission	CANADA
British Virgin Islands Financial Services Commission	BRITISH VIRGIN ISLANDS
Autoriti Monetari Brunei Darussalam	BRUNEI
Financial Supervision Commission	BULGARIA
Cayman Islands Monetary Authority	CAYMAN ISLANDS
Commission de Surveillance du Marché Financier de l'Afrique Centrale	CENTRAL AFRICA
Superintendencia de Valores y Seguros	CHILE
China Securities Regulatory Commission*	CHINA
Financial Supervisory Commission	CHINESE TAIPEI
Superintendencia Financiera de Colombia	COLOMBIA
Superintendencia General de Valores	COSTA RICA
Croatian Financial Services Supervisory Agency	CROATIA
Cyprus Securities and Exchange Commission	CYPRUS
Czech National Bank	CZECH REPUBLIC
Danish Financial Supervisory Authority	DENMARK
Superintendencia de Valores de la República Dominicana	DOMINICAN REPUBLIC
Superintendencia de Compañías y Valores	ECUADOR
Egyptian Financial Supervisory Authority*	EGYPT
Superintendencia del Sistema Financiero	EL SALVADOR
Financial Supervision Authority (Finantsinspektioon)	ESTONIA
Financial Supervision Authority	FINLAND
Autorité des marchés financiers*	FRANCE
Bundesanstalt für Finanzdienstleistungsaufsicht*	GERMANY
Securities and Exchange Commission	GHANA
Financial Services Commission	GIBRALTAR
Hellenic Republic Capital Market Commission	GREECE
Guernsey Financial Services Commission	GUERNSEY
Comisión Nacional de Bancos y Seguros (National Banks and Securities Commission)	HONDURAS
Securities and Futures Commission*	HONG KONG
Magyar Nemzeti Bank (The Central Bank of Hungary)	HUNGARY
Fjármálaeftirlitið - Financial Supervisory Authority	ICELAND
Securities and Exchange Board of India*	INDIA
Indonesia Financial Services Authority (OJK)*	INDONESIA
Central Bank of Ireland*	IRELAND

*Member of the IOSCO Board

Financial Supervision Commission	ISLE OF MAN
Israel Securities Authority	ISRAEL
Commissione Nazionale per le Società e la Borsa*	ITALY
Financial Services Commission*	JAMAICA
Financial Services Agency*	JAPAN
Ministry of Agriculture, Forestry and Fisheries	JAPAN
Ministry of Economy, Trade and Industry	JAPAN
Jersey Financial Services Commission	JERSEY
Jordan Securities Commission	JORDAN
National Bank of Kazakhstan	KAZAKHSTAN
Capital Markets Authority*	KENYA
Financial Services Commission/Financial Supervisory Service*	KOREA, REPUBLIC OF
Capital Markets Authority	KUWAIT
State Agency for Financial Surveillance and Accounting	KYRGYZ REPUBLIC
Financial and Capital Market Commission	LATVIA
Financial Market Authority	LIECHTENSTEIN
Central Bank of the Republic of Lithuania	LITHUANIA
Commission de surveillance du secteur financier	LUXEMBOURG
Securities and Exchange Commission of the Republic of Macedonia	MACEDONIA, FORMER YUGOSLAV REPUBLIC OF
Reserve Bank of Malawi	MALAWI
Securities Commission*	MALAYSIA
Capital Market Development Authority	MALDIVES, REPUBLIC OF
Malta Financial Services Authority	MALTA
Financial Services Commission	MAURITIUS
Comisión Nacional Bancaria y de Valores*	MEXICO
Financial Regulatory Commission	MONGOLIA
Securities Commission of the Republic of Montenegro	MONTENEGRO
Conseil déontologique des valeurs mobilières	MOROCCO
The Netherlands Authority for the Financial Markets*	NETHERLANDS, THE
Financial Markets Authority	NEW ZEALAND
Securities and Exchange Commission*	NIGERIA
Finanstilsynet (The Financial Supervisory Authority of Norway)	NORWAY
Capital Market Authority	OMAN
Ontario Securities Commission*	CANADA
Securities and Exchange Commission*	PAKISTAN
Palestine Capital Market Authority	PALESTINE
Superintendencia del Mercado de Valores	PANAMA, REPUBLIC OF
Securities Commission	PAPUA NEW GUINEA
Superintendencia del Mercado de Valores*	PERU
Securities and Exchange Commission	PHILIPPINES
Polish Financial Supervision Authority	POLAND
Comissão do Mercado de Valores Mobiliários	PORTUGAL
Qatar Financial Markets Authority	QATAR
Autorité des marchés financiers (AMF Quebec)*	CANADA
Financial Supervision Authority (ASF)	ROMANIA
The Bank of Russia	RUSSIA
Capital Market Authority*	SAUDI ARABIA, KINGDOM OF
Securities Commission	SERBIA, REPUBLIC OF
Monetary Authority of Singapore*	SINGAPORE
The National Bank of Slovakia	SLOVAK REPUBLIC
Securities Market Agency/Agencija Za Trg Vrednostnih Papirjev	SLOVENIA
Financial Services Board*	SOUTH AFRICA
Comisión Nacional del Mercado de Valores*	SPAIN
Securities and Exchange Commission	SRI LANKA
Republic of Srpska Securities Commission	BOSNIA AND HERZEGOVINA, FEDERATION OF
Finansinspektionen*	SWEDEN

Swiss Financial Market Supervisory Authority	SWITZERLAND
Syrian Commission on Financial Markets and Securities	SYRIA
Capital Markets and Securities Authority	TANZANIA
Securities and Exchange Commission	THAILAND
Trinidad and Tobago Securities and Exchange Commission	TRINIDAD AND TOBAGO
Conseil du marché financier	TUNISIA
Capital Markets Board*	TURKEY
Financial Services Commission	TURKS AND CAICOS ISLANDS
Capital Markets Authority	UGANDA
National Securities and Stock Market Commission	UKRAINE
Securities and Commodities Authority	UNITED ARAB EMIRATES
Financial Conduct Authority*	UNITED KINGDOM
Securities and Exchange Commission*	UNITED STATES OF AMERICA
Commodity Futures Trading Commission*	UNITED STATES OF AMERICA
Banco Central del Uruguay	URUGUAY
Center for Coordination and Development of Securities Market	UZBEKISTAN
Superintendencia Nacional de Valores	VENEZUELA
State Securities Commission	VIETNAM
Conseil régional de l'épargne publique et des marchés financiers	WEST AFRICAN MONETARY UNION
Securities and Exchange Commission	ZAMBIA

Associate Members (25)

Comissao do Mercado de Capitais	ANGOLA
Non-Bank Financial Institution Regulatory Authority	BOTSWANA
The Auditor General of the Securities Market	CAPE VERDE
Centrale Bank van Curaçao en Sint Maarten	CURAÇAO
Dubai Financial Services Authority	DUBAI
European Securities and Markets Authority	EUROPE
European Commission	BELGIUM
Organisation de coopération et de développement économiques	FRANCE
Securities and Exchange Organization	IRAN
Securities and Exchange Surveillance Commission	JAPAN
Korea Deposit Insurance Corporation	KOREA, REPUBLIC OF
Capital Markets Authority	LEBANON
Labuan Financial Services Authority	MALAYSIA
Namibia Financial Institution Supervisory Authority	NAMIBIA
Securities Board	NEPAL
Comision Nacional de Valores	PARAGUAY
Asian Development Bank	PHILIPPINES
Qatar Financial Centre Regulatory Authority	QATAR
Capital Market Authority	RWANDA
Financial Services Regulatory Authority	SWAZILAND
Union of Arab Securities Authorities	UNITED ARAB EMIRATES
Abu Dhabi Global Market Financial Services Regulatory Authority	UNITED ARAB EMIRATES
International Bank for Reconstruction and Development	UNITED STATES OF AMERICA
International Monetary Fund	UNITED STATES OF AMERICA

Affiliate Members (66)

Bolsa de Comercio de Buenos Aires	ARGENTINA
Bahamas International Securities Exchange	BAHAMAS, THE
Bahrain Bourse	BAHRAIN, KINGDOM OF
European Fund and Asset Management Association	BELGIUM
The Bermuda Stock Exchange	BERMUDA
BM&F Bovespa (Securities, Commodities and Futures Exchange)	BRAZIL
Brazilian Financial and Capital Markets Association	BRAZIL

*Member of the IOSCO Board

Central of Custody and Financial Settlement of Securities	BRAZIL
BM&F Bovespa Market Supervision	BRAZIL
Investment Industry Regulatory Organization	CANADA
Mutual Fund Dealers Association	CANADA
Cayman Islands Stock Exchange	CAYMAN ISLANDS
Channel Islands Securities Exchange Authority Limited	CHANNEL ISLANDS
Asset Management Association of China	CHINA
Shanghai Stock Exchange	CHINA
Shenzhen Stock Exchange	CHINA
China Securities Investor Protection Fund Co., Ltd.	CHINA
The Securities Association of China	CHINA
China Securities Depository and Clearing Corporation Limited	CHINA
China Financial Futures Exchange	CHINA
Taiwan Stock Exchange Corp.	CHINESE TAIPEI
Taipei Exchange	CHINESE TAIPEI
Taiwan Futures Exchange	CHINESE TAIPEI
Autorregulador del Mercado de Valores de Colombia	COLOMBIA
MISR for Clearing, Depository and Central Registry	EGYPT
Deutsche Börse AG	GERMANY
German Derivatives Association	GERMANY
Hong Kong Exchanges and Clearing Limited	HONG KONG
BSE Limited	INDIA
Multi Commodity Exchange of India Limited	INDIA
National Stock Exchange	INDIA
Indonesia Stock Exchange	INDONESIA
Japan Securities Dealers Association	JAPAN
Japan Exchange Group, Inc.	JAPAN
Korea Financial Investment Association	KOREA, REPUBLIC OF
Korea Exchange	KOREA, REPUBLIC OF
Bursa Malaysia	MALAYSIA
Malta Stock Exchange	MALTA
The Nigerian Stock Exchange	NIGERIA
Central Securities Clearing Systems PLC	NIGERIA
The Karachi Stock Exchange (Guarantee) Limited	PAKISTAN
National Association of Securities Market Participants	RUSSIA
Saudi Stock Exchange	SAUDI ARABIA, KINGDOM OF
Singapore Exchange Limited	SINGAPORE
Johannesburg Stock Exchange	SOUTH AFRICA
Bolsas y Mercados Españoles	SPAIN
SIX Swiss Exchange Ltd	SWITZERLAND
International Capital Market Association	SWITZERLAND
The Stock Exchange of Thailand	THAILAND
Borsa Istanbul	TURKEY
Dubai Gold and Commodities Exchange	UNITED ARAB EMIRATES
NASDAQ Dubai Ltd	UNITED ARAB EMIRATES
Hedge Fund Standards Board	UNITED KINGDOM
ICI Global	UNITED KINGDOM
LCH.Clearnet Group Limited	UNITED KINGDOM
World Federation of Exchanges Ltd.	UNITED KINGDOM
Securities Investor Protection Corporation	UNITED STATES OF AMERICA
Financial Services Regulatory Authority	UNITED STATES OF AMERICA
Financial Planning Standards Board Ltd.	UNITED STATES OF AMERICA
International Swaps & Derivatives Association, Inc.	UNITED STATES OF AMERICA
Depository Trust & Clearing Corporation (DTCC)	UNITED STATES OF AMERICA
CFA Institute	UNITED STATES OF AMERICA
CME Group	UNITED STATES OF AMERICA
Financial Industry Regulatory Authority	UNITED STATES OF AMERICA
Global Financial Markets Association	UNITED STATES OF AMERICA
National Futures Association	UNITED STATES OF AMERICA
Options Clearing Corporation	UNITED STATES OF AMERICA

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the financial statements of International Organization of Securities Commissions (the Organization), which comprise the statement of financial position as at December 31, 2016, and the statement of comprehensive income, statement of changes in net assets and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Organization in accordance with the *International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code)*, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Secretary General and the Audit Committee for the Financial Statements

The Secretary General is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organization to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

DELOITTE, S.L.

Antonio Ríos Cid

Madrid, April 25, 2017

Financial Statements

Statement of Comprehensive Income (in Euros)

Year ended December 31, 2016

Notes 1 and 2

	2016	2015
REVENUE		
Contributions from members (Note 3)	5,089,926	4,066,769
Annual Conferences (Note 3)	120,000	120,000
Exchange Gain	3,057	7,014
Other	23,943	33,135
2015 Capacity Building Program (Note 14)	56,295	43,795
Total Revenue	**5,293,221**	**4,270,713**
EXPENSES		
Salaries and employee benefits (Note 4)	2,662,457	2,220,036
Rental and maintenance (Note 13)	96,575	87,869
Travelling	421,397	435,179
Office Supplies	37,250	22,592
Organization and follow up of meetings	76,340	64,784
Telecommunications	100,497	109,533
Delivery and communication	10,939	8,297
Printing and Annual Report	36,174	43,994
Information Technology	150,859	150,839
Professional fees	138,563	145,075
Educational Programs and Technical Assistance	154,364	139,504
Miscellaneous	44,361	48,016
Exchange loss	-	-
PIOB Funding (Note 5)	100,000	100,000
Amortization of capital assets (Note 7)	38,791	40,413
2015 Capacity Building Program (Note 14)	56,295	43,795
Total Expenses	**4,124,862**	**3,659,926**
Taxation (Note 11)	-	-
Excess of revenue over expenses before tax (expenses over revenue)	**1,168,359**	**610,787**
Other comprehensive income net of tax	-	-
Total comprehensive income for the year net of tax	**1,168,359**	**610,787**

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

Statement of Financial Position (in Euros)

Year ended December 31, 2016

Notes 1 and 2

	2016	2015
ASSETS		
Current assets		
Cash (Note 6)	3,199,425	1,235,832
Term Deposits (Note 6)	3,000,000	4,000,000
Accounts Receivable (Note 8)	118,179	50,469
Prepaid Expenses (Note 9)	8,520	80,941
	6,326,124	**5,367,242**
Capital Assets (Note 7)	80,258	80,915
Total Assets	**6,406,382**	**5,448,157**
LIABILITIES		
Current Liabilities		
Accounts Payable and accrued liabilities (Note 8)	347,444	445,180
Contributions received in advance (Note 3)	381,435	493,833
Total Liabilities	**728,879**	**939,013**
MEMBERS' FUNDS		
Excess of revenue over expenses net of tax (expenses over revenue)	1,168,359	610,787
Unrestricted members´ funds	4,509,144	3,898,357
Total members' Funds	**5,677,503**	**4,509,144**
Total liabilities and members' Funds	**6,406,382**	**5,448,157**

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

Statement of Changes in Net Assets (in Euros)

Year ended December 31, 2016

Notes 1 and 2

		2016	2015
	UNRESTRICTED	TOTAL	TOTAL
Balance, beginning of year	4,509,144	4,509,144	3,898,357
Excess of revenue over expenses net of tax (expenses over revenue)	1,168,359	1,168,359	610,787
Balance, end of year	**5,677,503**	**5,677,503**	**4,509,144**

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

Statement of Cash Flows (in Euros)

Year ended December 31, 2016

Notes 1 and 2

	2016	2015
OPERATING ACTIVITIES		
Total comprehensive income for the year net of tax	1,168,359	610,787
Depreciation of capital assets (Note 7)	38,791	40,413
Decrease (increase) in working capital items (Note 10)	(205,423)	318,028
Net cash generated	**1,001,727**	**969,228**
INVESTING ACTIVITIES		
Term deposits transactions (Note 6)	1,000,000	(1,000,000)
Capital expenditures (Note 7)	(38,134)	(11,086)
Net cash used	**961,866**	**(1,011,086)**
Net increase (decrease) in cash and cash equivalents	**1,963,593**	**(41,858)**
Cash and cash equivalents, beginning of period	1,235,832	1,277,690
Cash and cash equivalents, end of period	**3,199,425**	**1,235,832**
CASH AND CASH EQUIVALENTS		
Cash (Note 6)	3,199,425	1,235,832
	3,199,425	**1,235,832**

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

1 Governing Statutes and Purpose of the Organization

The International Organization of Securities Commission (hereinafter IOSCO or "the Organization") is an association of securities regulatory organizations. It was incorporated as a non-profit organization under a private act in Canada (L.Q. 1987, Chapter 143) sanctioned by the Quebec National Assembly, is recognized by the Spanish Government by means of the Third Additional Disposition of Law 55/1999 and whose legal framework is constituted, mainly, by the "Headquarters Agreement between the Kingdom of Spain and the International Organization of Securities Commissions" published in the Spanish Official State Gazette on 17 December 2011 (HQA), and having its domicile in Madrid.

IOSCO is the international body that brings together the world's securities regulators and is recognized as the global standard setter for the securities sector. Its current membership comprises regulatory bodies from over one hundred and thirty jurisdictions who have day-to-day responsibility for securities regulation and the administration of securities laws. IOSCO develops, implements and promotes adherence to internationally recognized standards for securities regulation. It works intensively with the G20 and the Financial Stability Board (FSB) on the global regulatory reform agenda.

The IOSCO Objectives and Principles of Securities Regulation have been endorsed by both the G20 and the FSB as the relevant standards in this area. They are the overarching core principles that guide IOSCO in the development and implementation of internationally recognized and consistent standards of regulation, oversight and enforcement. They form the basis for the evaluation of the securities sector for the Financial Sector Assessment Programs (FSAPs) of the International Monetary Fund (IMF) and the World Bank.

By providing high quality technical assistance, education and training, and research to its members and other regulators, IOSCO seeks to build sound global capital markets and a robust global regulatory framework.

The IOSCO objectives are:

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

2 Accounting policies

Basis of preparation

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

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

These financial statements were authorised for issue by the Secretary General of the Organization on March 31, 2017.

Measurement bases

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

Accounting estimates

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

Revenue and cost recognition

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

Operating costs are recognized as an expense when incurred.

Employee entitlements

Employee salaries, social security and other related benefits are recognized in the statement of comprehensive income when they are earned. Contributions to staff pension plans and retirement entitlements are recognized when they become due.

Capital assets

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

Gains and losses on disposal are included in the statement of comprehensive income.

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

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

Foreign currency translation

Given that the Organization's functional and presentational currency is Euros, foreign currency transactions are accounted for in Euros at the rates of exchange prevailing at the transaction date. Exchange gains or losses on settlement of balances are recognized in the statement of comprehensive income when they arise.

Monetary assets and liabilities denominated in foreign currencies are recognized in Euros at the foreign exchange at the end of the reporting period. Foreign exchange differences arising on translation are included in the statement of comprehensive income.

3 Revenue

Contributions from members include membership fees collected in the year, corresponding to contributions due for the reporting period and previous reporting periods and contributions from agencies applying for membership.

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

Other revenue is comprised primarily of interest accrued from term deposits (see Note 6).

The account “Contributions received in advance” of the statement of financial position at 31 December 2016 includes funding received from members in 2016, amounting to €381,435 which is designated for subsequent periods (contributions of €493,833 received in advance during 2015). Part of these contributions correspond to members´ ordinary membership fees, the remainder correspond to contributions received in advance from nominated Board members in account of the 2015 Capacity Building Program (see note 14). The IOSCO Board agreed that the unspent budget from the 2015 Capacity Building Program would be carried over to fund further activities related to the IOSCO Capacity Building Online Toolkit in 2016 and 2017.

The balance of contributions received in advance as of 31 December 2016 and 2015 is provided in the chart below:

	2016	2015
Ordinary membership contributions	241,525	297,628
2015 Capacity Building Program (Note 14)	139,910	196,205
Total contributions received in advance	**381,435**	**493,833**

(in Euros)

4 Salaries and employee benefits. Secondment program

The average staff of the General Secretariat in 2016 and 2015 is shown in the chart below:

	2016			2015		
	Men	Woman	Total	Men	Woman	Total
Permanent staff	9	13	22	8	11	19
Secondees	4	2	6	8	1	9
Intern	1	-	1	-	1	1
Total Staff	**14**	**15**	**29**	**16**	**13**	**29**

Total salary and employee benefits´ cost are shown in the chart below:

	2016	2015
Gross salaries	2,055,449	1,896,092
Spanish social security	277,824	235,819
Other social benefits	329,184	88,125
Total salaries and employee benefits	**2,662,457**	**2,220,036**

(in Euros)

In 2016, the Organization had the benefit of seconded staff from the Securities and Exchange Commission of Bangladesh (BSEC), the Bundesanstalt für Finanzdienstleistungsaufsicht of Germany (BaFin), the Financial Services Agency of Japan (JFSA), the Financial Supervisory Service of Korea (FSS), the Financial Services Commission of Mauritius (FSC), the Financial Regulatory Commission of Mongolia (FRC), the Netherlands Authority for the Financial Markets (AFM) and the Financial Conduct Authority of United Kingdom (FCA).

To extend to secondees the benefits granted to IOSCO staff by the HQA, the typical mode of operation of the secondment program is for the Organization to enter into a trilateral agreement between the sponsoring member and the secondee, offering the secondee an employment contract in Spain.

Secondment program revenue includes contributions from members sponsoring staff to join the General Secretariat on a temporary basis. These contributions generally cover a portion of the seconded staff's salary costs paid through the Organization. Revenue is recognized based on the terms, amounts and payment schedule determined by the Secondment agreement between the Organization and the sponsoring member. The amounts payable to the secondee as part of the respective employment contract are recognized and accrued as an expense. To enhance comparability, the amounts corresponding to the secondment program, both revenue and expenditure, have been offset in the statement of comprehensive income. Consequently, the net difference between revenue and subsidized costs arising from social security adjustment is recognized on a net basis in the statement of comprehensive income under the "Salaries and employee benefits – Other social benefits" account, as shown in the chart below:

	2016	2015
Revenue associated to the Secondment Program	(253,072)	(495,930)
Subsidized expenditure associated to the Secondment Program	261,457	489,099
Net as at December 31, 2016	**8,385**	**(6,831)**

(in Euros)

In a minority of cases no trilateral agreement is executed because the sponsoring member continues provide all the employment, administrative and financial requirements with regard to the secondee. When this occurs, IOSCO does not have any direct, formal employment link with the secondee and does not hold any financial obligation. Accordingly, revenue and the related expenditure has not been accrued.

In addition, as part of the secondment agreements and in compliance with the IOSCO Secondment Program, IOSCO assumes certain costs, which are also recognized in the statement of comprehensive income in the "Salaries and employees benefits – Other social benefits" account, related to the moving and relocation of the secondees from their country of origin to Madrid, amounting to € 43,800 (€ 50,312 for the year 2015).

Also, the "Salaries and employees benefits – Other social benefits" heading in the statement of comprehensive income as of 31 December 2016 includes the contributions made by IOSCO to full time employees´ defined contribution pension plans (introduced by the 2020 Strategic Direction and included and approved in IOSCO´s 2016 budget) materialized in a Unit Linked managed by Aegon España, S.A.U. de Seguros y Reaseguros and other staff pension allowances amounting € 175,806 (no contributions made in 2015) and full time employees´ medical insurance and moving and relocation costs assumed by IOSCO amounting € 99,438 (€ 41.809 for the year 2015).

5 PIOB Funding

The Public Interest Oversight Board (PIOB) was formally established in February 2005 as part of the IFAC Reform Proposals with the objective to increase investor and other stakeholder confidence that IFAC's public interest activities, including standard setting by IFAC's independent boards, are properly responsive to the public interest.

With the view of diversifying funding sources for the PIOB, the IOSCO Executive Committee decided in October 2011 to provide the PIOB a direct financial contribution of one hundred thousand Euros per year, starting in 2013.

IOSCO contributed €100,000 to the PIOB in 2016 and 2015.

6 Cash and Term Deposits

Cash is held in current bank accounts or bank term deposits denominated in Euros in Caixabank, Santander Private Banking, and BBVA, all EU entities with an upper medium credit rating. Cash balances include a small portion held in US dollars. There are no restrictions for the use of cash.

The basic terms of the bank deposits as of 31 December 2016 and 2015 are shown in the charts below:

				2016	
Counterparty (in Euros)	**Currency**	**Contract date**	**Maturity date**	**Annualized interest rate**	**Amounts**
Banco Santander*	Euro	10/02/2016	10/03/2018	0.649%	500,000
Banco Santander*	Euro	14/02/2016	14/03/2018	0.649%	500,000
Banco Santander*	Euro	17/02/2016	17/03/2018	0.649%	500,000
Banco Santander*	Euro	20/02/2016	20/03/2018	0.649%	500,000
Banco Santander*	Euro	01/03/2016	01/04/2018	0.649%	500,000
Banco Santander*	Euro	07/03/2016	07/04/2018	0.649%	500,000
Total as at December 31, 2016					**3,000,000**

(*) Term deposits with quarterly liquidity windows

				2015	
Counterparty (in Euros)	**Currency**	**Contract date**	**Maturity date**	**Annualized interest rate**	**Amounts**
Banco Santander	Euro	10/01/2014	10/02/2016	0.541%	500,000
Banco Santander	Euro	14/01/2014	14/02/2016	0.541%	500,000
Banco Santander	Euro	17/01/2014	17/02/2016	0.541%	500,000
Banco Santander	Euro	20/01/2014	20/02/2016	0.541%	500,000
Banco Santander	Euro	01/02/2014	01/03/2016	0.541%	500,000
Banco Santander	Euro	07/02/2014	07/03/2016	0.541%	500,000
BBVA	Euro	08/06/2015	07/06/2016	0.250%	250,000
BBVA	Euro	08/06/2015	07/06/2016	0.250%	250,000
BBVA	Euro	08/06/2015	07/06/2016	0.250%	250,000
BBVA	Euro	08/06/2015	07/06/2016	0.250%	250,000
Total as at December 31, 2015					**4,000,000**

7 Capital Assets

	Vehicles	Furniture and fixtures	Computer equipment	2016 Total
At the lower of recoverable value and cost				
Balance, beginning of year	37,561	104,599	626,032	768,192
Additions	-	1,628	36,506	38,134
Disposals	-	-	-	-
Balance, end of year	**37,561**	**106,227**	**662,538**	**806,326**
Accumulated depreciation				
Balance, beginning of year	(14,085)	(68,895)	(604,297)	(687,277)
Depreciation	(9,390)	(12,395)	(17,006)	(38,791)
Disposals	-	-	-	-
Balance, end of year	**(23,475)**	**(81,290)**	**(621,303)**	**(726,068)**
Net as at December 31, 2016	**14,086**	**24,937**	**41,235**	**80,258**

(in Euros)

	Vehicles	Furniture and fixtures	Computer equipment	2015 Total
At the lower of recoverable value and cost				
Balance, beginning of year	37,561	104,599	621,049	763,209
Additions	-	-	11,086	11,086
Disposals	-	-	(6,103)	(6,103)
Balance, end of year	**37,561**	**104,599**	**626,032**	**768,192**
Accumulated depreciation				
Balance, beginning of year	(4,695)	(52,833)	(595,439)	(652,967)
Depreciation	(9,390)	(16,062)	(14,961)	(40,413)
Disposals		-	6,103	6,103
Balance, end of year	**(14,085)**	**(68,895)**	**(604,297)**	**(687,277)**
Net as at December 31, 2015	**23,476**	**35,704**	**21,735**	**80,915**

(in Euros)

8 Accounts receivable and accounts payable and accrued liabilities

a) Accounts receivable

	2016	2015
Secondment contributions	104,402	38,758
Other	13,777	11,710
Total Accounts receivable	**118,179**	**50,468**

(in Euros)

b) Accounts payable and accrued liabilities

	2016	2015
Professional services	87,684	88,730
Occupancy	68,000	65,000
Spanish Taxes (employee's income tax withheld) and Social Security	120,002	96,221
Contractual staff commitments	33,714	105,979
Travelling	31,899	61,245
Other	6,145	28,005
Total Accounts payable and accrued liabilities	**347,444**	**445,180**

(in Euros)

9 Prepaid expenses

Prepaid expenses comprise advance payments in the reporting period relating to services that will be rendered in subsequent periods. They are carried on the balance sheet until the service is rendered and expenses are recognized in the statement of comprehensive income.

Detail of prepaid expenses at December 31 2016 and 2015 is as follows:

	2016	2015
Travel booked in advance for subsequent periods	3,171	80,941
Other	5,349	-
Total Accounts payable and accrued liabilities	**8,520**	**80,941**

(in Euros)

10 Information Included in the Statement of Cash Flows

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

	2016	2015
Accounts receivable	(67,710)	8,706
Prepaid expenses	72,421	(28,702)
Accounts payable and accrued liabilities	(97,736)	82,837
Contributions received in advance	(112,398)	255,187
Increases (decreases) in working capital	**(205, 423)**	**318,028**

(in Euros)

11 Taxation

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

12 Government Assistance

As part of the headquarters agreement, IOSCO receives from the Spanish Authorities the right to use a 56% share of the 12 Oquendo premises free of charge, exclusive of non-structural maintenance expenses (e.g., electricity, water, elevator maintenance, etc). The estimated revenue in kind associated with the 56% share is of € 219,811 for 2016.

IOSCO has also entered into an agreement with the Spanish securities regulator, Comisión Nacional del Mercado de Valores (CNMV) under which the parties agreed that the CNMV will be responsible for meeting the costs of security and maintenance of security systems in the IOSCO premises; insuring the premises; and municipal and local property taxes. These revenues in kind have been estimated at € 73,099 for 2016 (€ 64,154 in 2015).

13 Rental and Maintenance

	2016	2015
Estimated Spanish Authorities' charges for non-structural maintenance costs	68,000	65,000
Other external maintenance services	28,575	22,869
Total rental and maintenance	**96,575**	**87,869**

(in Euros)

14 2015 Capacity Building Program

In June 2014, the IOSCO Board approved a pilot program for additional capacity building activities to be carried out by the General Secretariat. These activities included the creation of an Online Toolkit and the organization of two additional regional training seminars. These capacity building activities for IOSCO members are in addition to the long-standing and on-going IOSCO education and training activities.

As part of this approval, the Board also agreed that the pilot program would be funded by a one-off contribution of € 15,000 from nominated members to the IOSCO Board,[2] to be paid in 2015 as a supplement to their 2015 annual membership contribution fees. The IOSCO Presidents Committee ratified this agreement in its resolution 2/2014.

A total of € 240,000 was received in 2015 from 16 nominated Board members.

The total costs incurred in 2016 to support and develop the pilot program were € 56,295 (€ 43,795 in 2015). These costs correspond primarily to the professional consulting fees for the development of the materials for certain portions of the pilot program.

During the course of 2016, the IOSCO Board agreed to use the unspent funds to further enhance the pilot program.

The unspent funds of €139,910 (€196,205 as of 31 December 2015) have been recognized as contributions received in advance from members (see note 3).

15 Auditors´ remuneration

The total remuneration paid by IOSCO to its auditors is € 9,000 for 2016 and 2015.

16 Subsequent Events

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

[2] Annex A of the Presidents Committee Resolution on the composition of the IOSCO Board (Resolution 5/2013). Nominated Board members are the 18 members from jurisdictions with the largest markets, based on measures of equity market capitalization, debt market issuance, assets under management and derivatives trading.

International Organization
of Securities Commissions

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