Report from the IOSCO Secretary General

Mr. Paul Andrews
> IOSCO Secretary General

As I indicated in last year's report, IOSCO planned to focus its efforts during 2017 on five focus areas, and I am pleased to say that we have made significant progress in each area:

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. **Examining the role of regulation in financial technology and automation.**

Each of these five areas is critical for IOSCO and its members because each one impacts our markets, our supervisory approaches, and how we protect investors.

In the **first focus area**, the key question is whether we are better protected from the next crisis, regardless of whether it derives from central counterparties, bond market liquidity, market volatility, asset management, or elsewhere.

The **second focus area** seeks to address our collective need for additional and more consistent data in areas that are drawing greater attention, such as bond market liquidity in stressed conditions or how markets are dealing with collateral transformation of assets.

The **third focus area** is critical to IOSCO's overarching mission of protecting investors. We are constantly searching for new and innovative ways to help investors guard against fraud and mis-selling. Sometimes that will entail regulators looking for new oversight techniques and focusing on target populations that may be particularly at risk.

The **fourth focus area** is important for many of our members, including those that have a market development mandate as part of their overall mission. There is a never-ending search for instruments such as infrastructure or sustainable finance products that can play a role in how markets evolve and become deeper and more liquid.

I suspect that the **final focus area** will be a perennial issue for IOSCO as the speed, complexity, and scale of technological development is unprecedented. Whether it is thinking about ways that distributed ledger technology can help make markets and regulators more effective, or how robo-advice can be used to meet investor needs, or developing new approaches to cybersecurity and resiliency, IOSCO must be at the forefront of efforts to confront these new challenges.

Within this overall context, I thought it would be helpful to provide you with a few specific examples of our work in each focus area during 2017.


OICU-IOSCO
London
Stock Exchange

Focus Area 1
Strengthening the structural resilience of capital markets

One of the key deliverables in this area is IOSCO's *Final Report on Recommendations for Liquidity Risk Management for Collective Investment Schemes* and the accompanying *Good Practices and Issues for Consideration*, which we published in early 2018. We believe that this report is important because it puts to rest the general discussion about whether asset managers – as institutions -- should be considered SIFIs – Systemically Important Financial Institutions. In the report, IOSCO looks at the ***activities*** of asset managers to assess whether there are potential systemic risks and vulnerabilities involved. We do not look at the institutions themselves. In the report, we make various recommendations on what asset managers can do to mitigate any systemic vulnerabilities arising out of their day-to-day functions.

At the same time, through our joint work with the Committee on Payments and Market Infrastructures (CPMI), we published a final report on the resiliency of central counterparties (CCPs) and a revised report on recovery of financial market infrastructures (FMIs). CCPs are a critical piece of the financial plumbing that helps to ensure the smooth functioning of the markets. The report on CCP resilience provided more granular guidance on several key aspects of the *CPMI-IOSCO Principles for Financial Market Infrastructures*, to further improve the resiliency of CCPs. It focuses on five key aspects of a CCP´s financial risk management framework and on a CCP´s contribution of its financial resources to losses. The revised report on recovery of FMIs clarifies aspects of the replenishment of financial resources, non-default losses, implementation of recovery plans, and use of recovery tools.

Given that cyber-attacks now pose a major risk to financial stability and investor protection, the Board set up a Cyber Task Force in 2017 to take a broad look at capital markets and their participants to determine how to improve their cyber security and resilience. This task force intends to report back to the Board on its findings before the end of the year. At the same time, work on cyber issues has also been carried out by the GEMC and is being addressed to securities regulators from growth and emerging markets.

As the world enters a more volatile phase of the financial market cycle, caused in part by a welcome return to growth and post crisis market conditions, we should expect bouts of extreme volatility that could undermine market integrity and investor confidence. In response, IOSCO is developing a report for publication in 2018 on measures that trading venues can use to address the risks from extreme volatility and strengthen international capital market resilience.

One final achievement in this area involves the Assessment Committee's effort to monitor the implementation of the IOSCO Principles and Standards related to secondary markets across the IOSCO membership. The results of this exercise will be available in 2018. A related significant achievement is that the IOSCO Objectives and Principles of Securities Regulation and the Methodology for assessing the implementation of these principles have been revised to incorporate all relevant reports since November 2011, which was the date of the last significant update.

Focus Area 2
Addressing data gaps and information sharing issues

On information sharing, a subgroup of the Board has spent countless hours working with all interested parties on aspects of the upcoming European General Data Protection Regulation or GDPR. The GDPR has the potential to significantly impede the sharing of information among IOSCO members under both the IOSCO MMoU and bilateral supervisory agreements if the information exchange contains personal data as defined under the regulation. The Board subgroup is seeking a solution that will uphold the key policy objectives underlying the GDPR while strengthening IOSCO´s investor protection and enforcement efforts through the continued exchange of relevant information. We remain hopeful that we will find a workable solution.

In a significant breakthrough, IOSCO adopted the Resolution on the Enhanced Multilateral Memorandum of Understanding (EMMoU) in 2017, and it already has approved the first set of EMMoU signatories.

Access to data continues to be vital to IOSCO´s work. During 2017, our Committee on Emerging Risks conducted important fact-finding work in various areas, which included gathering information and data on how corporate bond markets react in stressed conditions and examining data related to collateral transformation. These are important foundational pieces of work in areas that IOSCO will continue to watch closely to determine whether we should play a more active policy-related role.

We also worked closely with our colleagues at CPMI to develop guidance regarding the definition, format, and use of key over the counter derivative data elements, including unique transaction identifiers (UTI) and unique product identifiers (UPI). Harmonization of data elements is a crucial condition to aggregate OTC derivatives data on a global basis, which in turn should help our members with their regulatory and supervisory tasks. During the year, we finalized both UTI and UPI technical guidance, and we are continuing work on other critical data elements.

Focus Area 3
Applying new insights into investor protection and investor education

During 2017, we made progress on investor protection and investor education, including on analyzing the use of behavioral economics concepts. First, IOSCO's Committee on Retail Investors (Committee 8) prepared a report in October 2017 that addressed the application of behavioral insights to investor education programs and initiatives. This interim report, which was published for IOSCO members only, will be finalized for public release with the collaboration of the OECD – the Organization for Economic Cooperation and Development.

Second, Committee 8 spent considerable time in 2017 on examining risks that ageing investors may face and specific strategies, policies, and resources that may address their needs. The final report was due to be published in 2018 and will provide sound practices for regulators, financial services providers, and intermediaries to mitigate the risks facing senior investors.

Third, the Committee will examine how regulators use behavioral finance concepts in their efforts to protect investors through supervisory and regulatory means. We expect to complete this work in 2018.

Finally, we also sought to advance our objective to protect investors in other ways. The IOSCO Board launched an Initial Coin Offering (ICO) Network to share experiences in the fast developing cryptocurrency area. The Board also issued a public statement warning investors of the risks and challenges associated with ICOs. We moved closer to finalizing a toolkit of policy and investor education measures with guidance related to the sale of specific OTC leveraged products – i.e., contracts for difference, binary options, and rolling spot forex contracts. Finally, the Assessment Committee is carrying out a peer review of the implementation of IOSCO suitability recommendations regarding the distribution of complex financial products.

Focus Area 4
Analyzing the role of securities markets in capital-raising and sustainability issues, and the related role of securities regulation

Early in 2017, the Infrastructure Working Group – a subgroup of the Board – examined the regulatory impediments to infrastructure financing around the globe. The CNBV of Mexico and the CMA of Kenya led this work, which involved gathering input from relevant stakeholders – regulators, institutional investors, intermediaries, and development banks. The work concluded with a final report to the Board indicating that the major impediments in this area stem from tax and insolvency questions that are outside IOSCO's purview and not from regulatory or supervisory concerns.

Also during the year, IOSCO's Committee 1 on Issuer Accounting, Audit and Disclosure began discussions about whether and how disclosure requirements on such things as green or sustainable finance could assist jurisdictions in the capital raising process. The Committee is keeping a watching brief on this issue.

Finally, the GEM Committee embarked on an initiative to determine the current state of play of sustainable finance in emerging markets. The Committee conducted a survey and will present its findings to the IOSCO Board for a discussion on next steps.

Focus Area 5
The role of regulation in financial technology and automation

To understand how financial technology is impacting the capital markets, IOSCO's Committee on Emerging Risks published a comprehensive research report on various financial technologies, including (1) alternative financing platforms, (2) retail trading and investment platforms, (3) institutional trading platforms; and (4) distributed ledger technologies or DLT. The Committee will follow up in 2018 with a second report specifically describing novel technologies developed or deployed by regulators. At the same time, IOSCO will address other pressing technology issues, including the use and effects of artificial intelligence and machine learning in regulation and oversight.

In addition to these specific workstreams, we have now made the Risk Outlook more integral to the IOSCO Board's priority-setting process. Under the new approach, the Risk Outlook will continue to scan the environment for risks and issues, and, on a yearly basis, the Board will draw on this information when discussing its policy priorities in the current five focus areas.

To support our policy and implementation monitoring activities, we have also been providing capacity building tailored to the needs of our membership. Our education and training events and the more recent technical assistance activities are meant to support building regulatory capacity in member jurisdictions, in particular those coming from growth and emerging markets.

I look forward to making significant progress on our work in 2018, and I look forward to updating you on key developments.