Report of the Board: The year in review and the year ahead

A speech by Greg Medcraft, Chairman
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Introduction

I want to take this opportunity to reflect on where IOSCO has been in the last year and where I expect it will travel in the coming year.

Before I do, I would like to thank Leonardo Pereira and his staff at the Comissão de Valores Mobiliários (CVM) for the fantastic way in which they have organised what is proving to be a very exciting and stimulating event in one of the world’s great cities.

Now, turning to where we have been. This has been an important year for IOSCO. We have achieved a great deal in just 12 months:

- we have advanced a number of important policy, cooperation and engagement projects and organisational changes, and
- we have also embarked on an important strategic review.

I think IOSCO has become more proactive and forward looking. And we are emerging as the key reference point on securities regulation. Our recent survey of members and stakeholders confirms this. Our views are also being actively sought by the Financial Stability Board (FSB) and the Group of 20 (G20).

I want to thank David Wright and the General Secretariat for their important contribution to this journey. They have worked tirelessly with the Management Team and the Board to drive a number of initiatives to build a more inclusive and representative organisation.

I want also to thank the Vice-Chairs (Ranjit Singh and Howard Wetston), the Board and the Growth and Emerging Markets (GEM) Steering Committee for their continuing support. Ranjit and Howard deserve a special mention for their commitment of time, resources and intellectual grunt to our many projects. We are enormously appreciative of their efforts.

Now, I’d like to turn to our key achievements and our work in the last year. Specifically, I will cover our work on:

- emerging risk
- policy development
- implementation monitoring
- supporting our members from growth and emerging markets
- enhancing cooperation between our members, and
- changes to how we are organised.

A common theme through all of this work is about building trust and confidence in our markets to ensure they can support economic growth.

I will then talk about what I see as our priorities and challenges for the next year.
Identifying and responding to emerging risks

First, I’d like to touch on our work on identifying and responding to emerging risks.

As an organisation, we are thinking more about emerging risks and actively responding to what we see. An important initiative in the last year has been the Emerging Risk Roundtables, which are now a part of our Board meetings and our regional committee meetings.

These roundtables have been an opportunity for us to engage with industry, academics and other experts to:

- understand the risks and challenges we face as regulators, and
- how we might respond – both at a national and global level.

At the Board level, Emerging Risk Roundtables have discussed:

- cybersecurity and cyber resilience
- the opportunities and threats posed by social media
- issues faced by growth and emerging economies, and
- improving corporate governance.

The roundtables have challenged us to think outside the box, including in how we use our regulatory toolkit. They have also given us an opportunity to reflect on what IOSCO can do to bring this new thinking together at a global level.

The Securities Markets Risk Outlook published in October 2013 – the first of what will be an annual exercise – was also a fine example of the role IOSCO can play in identifying emerging and systemic risks in our regulatory perimeter.1

Policy development

I’d now like to turn to our policy development work.

IOSCO has continued to develop standards and regulatory guidance in a number of areas. We are doing so with greater speed and dexterity. Projects we completed during the year included:

- Principles for Financial Benchmarks2
- Principles for the Regulation of Exchange Traded Funds (ETFs)3

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3 Board of IOSCO, Principles for the Regulations of Exchange Traded Funds (IOSCOPD414), final report, IOSCO, June 2013.
• work on margin requirements for non-centrally cleared derivatives,⁴ and
• a report on retail structured products.⁵

Our current work agenda includes a number of projects contributing to the FSB and G20 Agenda. Examples include:
• setting risk mitigation standards for non-centrally cleared derivatives
• assessing implementation of our recommendations and principles on securitisation and money market funds, and
• developing methodologies to identify and regulate systemically important financial institutions (SIFIs) in our regulatory space.

We are also working on a number of important projects on key global issues.

I want to touch on three of these that are about building trust and confidence in the markets we regulate.

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

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

The second issue is cyber resilience. This work builds on our Luxembourg roundtable on cybercrime. That roundtable highlighted for me that the next ‘black swan’ event may be a cyber attack. It also flagged a real opportunity for IOSCO to contribute to improving the resilience of our markets and those we regulate to cyber attacks.

The third issue is cross-border regulation. In 2013, we established a task force led by the Hong Kong Securities and Futures Commission (SFC) and supported by the Swiss Financial Market Supervisory Authority (FINMA) to develop a toolkit of measures to regulate the activity of foreign firms. The aim of this work is to develop common approaches to regulating cross-border activity in an increasingly globalised market place.

This work is progressing well. We discussed it at the Board yesterday and expect to issue a consultation paper before the end of the year.

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⁵ Board of IOSCO, Regulation of retail structured products (IOSCOPD434), final report, IOSCO, December 2013.
Implementation monitoring

I’d now like to turn to our work in implementation monitoring. We see this as an important tool to encourage implementation of IOSCO’s standards.

This year has also seen the launch of a number of projects to monitor implementation of IOSCO principles and standards, including:

- IOSCO’s Principles for Financial Benchmarks;
- the Committee on Payments and Market Infrastructure (CPMI) and IOSCO Principles on Financial Markets Infrastructure and regulatory initiatives on derivatives market intermediaries, and
- those on the timeliness and frequency of disclosure to retail investors.

Supporting our members from growth and emerging markets

I’d now like to turn to our work in supporting our members from growth and emerging markets.

IOSCO has a critical role to play in assisting the development of capital markets in these economies, which – by attracting patient capital – can support and drive economic growth.

I am proud to report that this year has seen an increased focus on identifying and supporting the needs of our members from these markets. This is a reflection of the strong leadership provided by the Chair of the GEM Committee, Ranjit Singh, and his Vice-Chair Bert Chanetsa.

A key initiative agreed by the Board in Luxembourg in September was the establishment of a Capacity Building Resource Committee. Their mandate is to develop and implement a strategy to fund capacity-building among our GEM members.

This committee – with support of the Secretariat and the GEM Committee – has identified and developed education and training initiatives for which funding is being sought.

I am happy to announce that the nominated or permanent members of the Board have agreed to increase their contribution to IOSCO by €15,000 each in 2015 to specifically fund these projects. We will ask the Presidents’ Committee to endorse this increase at this meeting.

I want to acknowledge and thank Board members for agreeing to this increase. It sets a fine example of the commitment we can each make to supporting development of regulatory capacity across our membership. The increased contribution will allow us to deliver programs that we can use to show external
funding sources – such as philanthropic and public organisations – the benefits of IOSCO and its capacity-building work in GEM member countries.

Cooperation

I’d like now to turn to our work in encouraging cooperation across our membership.

The past year has also seen significant commitment by our members to becoming full signatories to the Multilateral Memorandum of Understanding (MMOU). Our Screening Group and the General Secretariat continue to work tirelessly with members to meet the high standards we expect of Appendix A signatories.

By September, 103 members were full signatories. The Graduated Additional Measures approved by the Presidents’ Committee in Luxembourg have been an important incentive to jurisdictions to sign up. I believe these measures were necessary. The MMOU is the foundation on which cooperation between our members is based. Its effectiveness – and the effectiveness and impact of enforcement activity in global markets – depends on all our members being full signatories.

How we are organised

And, finally, I would like to highlight important organisational changes we set in train this year. These are through:

- membership and Board changes, and
- the IOSCO 2020 Project.

Membership and Board changes

The first is a change to the structure and composition of your Board.

These changes were approved in Luxembourg last year and will take effect this week. They were intended to ensure the Board is both inclusive and representative. The Board we elected this week now has not only 18 members from the largest markets, but increased representation from among our growth and emerging markets members.

IOSCO 2020

The second is a strategic review for IOSCO for the rest of this decade – our 2020 Project.
The project is about giving us the opportunity to define how we want to be seen by our members and key stakeholders by the end of the decade, and a strategic plan to deliver on that vision.

Work on the project is well advanced, with a consultation paper setting out operational goals, priorities and an action plan to be issued for comment shortly. The paper will also identify the resources we need to deliver the goals and the priorities and set out ways in which these additional resources might be funded.

I urge you all to take the time to reflect and comment on the proposals in the paper.

The way forward

I would now like to reflect on what I see as the way forward for 2014 and 2015. Our challenge for the coming year will be to build on the changes and the good work of the past year.

Our objective should continue to be to support each of our members and the global regulatory community in working to ensure the markets we regulate perform their fundamental purpose – funding the real economy and driving economic growth.

I see us doing this by aiming to build investor and issuer trust and confidence in the markets we regulate. Put simply, without this trust and confidence the use of our markets and the economic growth they support won’t be optimal. We also need to do what we can to support our markets in the efficient allocation of capital.

We will continue to face challenges in delivering on this objective. Addressing these challenges will help us to focus our thinking through the next year.

The first challenge is the increasing interconnectedness of what are increasingly globalised markets. This means working towards developing standards and guidance that can form the basis for consistent or harmonised approaches to regulation. It also means improving the way we work together in supervising, investigating and taking enforcement action in relation to cross-border activity.

The second challenge is the growth of market-based finance and the increased significance of the markets we regulate. This points to our increasingly important role in the financial system.
The third challenge is ongoing innovation-driven complexity in products, markets and technology. This means staying ahead of the curve – by understanding risks early and developing quick and appropriate responses.

To this trilogy I want to add a fourth challenge – digital disruption to business models. By this I mean technologically driven changes to how those in our markets run their businesses.

It is important that we understand and mitigate the risks of these disruptions – risks that might undermine confidence in our market – while allowing those who use our markets to harvest the opportunities these disruptions offer.

So, given our objectives and these challenges, what should our priorities be? I see four very clear priorities.

The first is to support our growth and emerging markets by designing and funding a sustainable capacity-building program that meets our members’ needs.

Growth and emerging markets account for over 75% of our members. They are and will continue to be the engine room of global economic growth. We must work to support them in building markets that, because they are trusted, attract the patient capital needed to support that ongoing growth.

The second is to continue to focus on identifying, understanding and developing appropriate global responses to emerging risks – particularly those flowing from digital disruption and from product, market and technological innovation.

The third is to focus on the design of regulatory toolkits and responses that are flexible, creative and provide incentives for the type of innovation that drives growth without undermining investor trust and confidence in our markets.

Lastly, the fourth priority is to continue our focus on assessing implementation of our principles and standards as a means of encouraging consistent implementation across our membership.

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