

## IOSCO Events

### London successfully hosts IOSCO Technical Committee Conference

**The majestic Savoy Hotel in London was the superb venue for the recent Technical Committee Conference where more than 350 delegates from all across the world came together to discuss a broad range of current issues and to debate a global agenda for financial markets. The Conference was held over 16-17 November 2006.**

In a series of lively panel discussions, delegates explored the issues which are currently the focus of work being carried out by the various IOSCO Standing Committees. The topics included the regulation of the investment management sector; the regulation of exchanges; challenges facing market intermediaries; multinational approaches to accounting and auditing; and developments in global cooperation and enforcement.



*Sir Callum McCarthy, Chairman of the UK FSA*

Delegates included representatives from both the regulatory world as well as from the financial services community. They were officially welcomed by the Chairman of the UK Financial Services Authority, Sir Callum McCarthy, who noted in his opening remarks that the London Conference was taking place at an important time against a backdrop of ever increasing changes in capital markets which "inevitably raise issues for regulators. These are often complex and of con-

cern simultaneously to regulators around the world. This is why IOSCO is so important".

The Hon. Ed Balls, Economic Secretary to the Treasury echoed these sentiments. In his address to the Conference, Mr. Balls praised the key role IOSCO plays in the shared objectives of international regulatory cooperation, information sharing, mutual assistance and in "keeping our world financial system strong, stable and efficient".



*The Hon. Ed Balls, Economic Secretary to the Treasury*

The positive nature of the event was demonstrated in the many opportunities it afforded delegates to engage in an in-depth dialogue especially between regulators and the industry and to discuss market solutions to shared issues.

Among topics to generate considerable debate during the Conference was the re-emerging discussion on the respective merits of principles versus rule based approach to regulation as well as what constituted adequate disclosure to investors and the need for greater

cross-jurisdictional enforcement action across borders. Given current events, the push towards consolidation among exchanges and developments in auditing also came in for plenty of attention.

The general consensus was that the Conference proved a resounding success in achieving the IOSCO aims of holding an informative dialogue with a broad cross-section of the global financial services community as well as to raise levels of awareness on the broad range of issues which are currently on the IOSCO agenda.

This was the third annual Technical Committee event of this type. It followed previous such conferences which were held in New York in 2004 and Frankfurt in 2005. The fourth in this series will take place in Tokyo during the autumn of 2007. ■



# IOSCO Committees at Work

## The Executive Committee

The Executive Committee met in London on Wednesday 15 November 2006 and was chaired by Ms. Jane Diplock who is also the Chairperson of the New Zealand Securities Commission. During the meeting, discussions took place on a range of important issues including the progress made in relation to the implementation of the IOSCO MOU.

### External Relations

The Chairperson outlined recent policy contact which IOSCO has had with other international financial institutions. Among those organisations with which IOSCO has had recent high level contact are the IMF and the World Bank. The value of this contact is that it establishes and maintains communication and policy links at the highest hierarchical levels which enable more effective top-level policy dialogue and coordination between IOSCO and these institutions.

### IOSCO Principles – Implementation Task Force (ITF)

Encouraging progress was noted in the use of the *IOSCO Principles Assessment Methodology* and in the implementation of the Principles among members. The ITF confirmed that it has held positive consultations with the IMF and the World Bank on their use of the IOSCO Principles and their experience in conducting assessments using the IOSCO Methodology.

The ITF and the General Secretariat will also be hosting a training workshop for assessors in Madrid on 4-5 December 2006. The purpose will be to discuss practical experiences in undertaking assessments. In addition, the ITF is also currently undertaking further work to develop a "Reference Guide" for use in conjunction with the IOSCO Methodology.

Following the recent retirement of Mr. Carlo Biancheri as Chairman of the ITF, the members expressed their appreciation and gratitude for the outstanding service and commitment provided to IOSCO over many years and specifically through Mr. Biancheri's contribution to the work of the ITF.

The Executive Committee has appointed the Australian Securities & Investments Commission, as represented by Mr. Greg Tanzer, to be the new Chairman of the ITF. Mr. Tanzer had previously served as Deputy Chairman of the ITF.



*Greg Tanzer, new Chairman of the ITF*

### IOSCO MOU Assistance Program

The IOSCO MOU Assistance Program continues to help members throughout their MOU application process which at times can be quite demanding.

In recognition of the difficulties which some members may have, this program is providing technical assistance to a number of members.

In addition, the program is proving to be an essential part of the overall effort to ensure that members are able to meet the 1 January 2010 deadline.

Members from a number of jurisdictions have or are currently in the process of benefiting from the Program including Brunei, Costa Rica, Indonesia, Kenya, Mauritius, Philippines, Tanzania, Uganda and Vietnam.

An invaluable source for the success of the Program to date is the commitment made by a number of members to provide the necessary technical expertise.

The IOSCO Secretary General has noted that Australia, Hong Kong, France, New Zealand, Singapore, Spain and Thailand had all been generous with their technical assistance in this regard. ■

## Further progress with the IOSCO MOU

### Multilateral Memorandum of Understanding (MOU)

The Organisation has maintained excellent progress in seeking to expand the coverage of the IOSCO Memorandum of Understanding. During its London meetings, the Executive Committee was advised on the progress being made towards the 2010 timetable. The most recent signatory to be welcomed is the Kredittilsynet of Norway. ■

## The Technical Committee

**The Technical Committee met in London on Tuesday 14 November 2006 and was chaired by Mr. Michel Prada who is also the Chairman of the Autorité des marchés financiers of France.**

### Financial Stability Forum (FSF)

The Chairman reported on recent consultative discussions with the FSF that covered a wide range of issues. The ongoing dialogue assists to keep both organisations informed about their respective activities and projects. Among recent topics under consideration included the assessment of risks and vulnerabilities in the international financial system.

### Task Force on Corporate Governance

The Task Force has finalized its consultation report dealing with Board Independence and this has now appeared on the IOSCO website. During the course of this mandate the Task Force was actively engaged in consultations with the OECD which has provided helpful input throughout. It is envisaged that once the consultation period has ended a final report will be prepared for release in early 2007.

The CNMV of Spain, which is co-hosting the Task Force is planning to host an International Conference on Corporate Governance & Securities Markets which will take place in Madrid in early February 2007.

The Task Force has been granted an additional mandate to examine corporate governance practices in relation to the rights of minority shareholders during takeovers. This is in recognition that this is an issue of particular significance to securities regulators in a number of jurisdictions.

### Task Force on Non-Audit Services

The Task Force is currently in the process of finalizing its report on the regulation of non-audit services provided by auditors to audited companies. Already it is apparent that this report will be valuable in presenting a useful overview of the issue across jurisdictions.

### Task Force on Audit Quality

Given current developments, this Task Force has decided to host a Roundtable on Audit Quality which will provide

an appropriate forum for gathering additional information on these issues from the perspective of securities regulators. It is anticipated that this Roundtable would take place during the second quarter of 2007. In addition, the Task Force has also recently commenced new work on formulating contingency plans for regulators to be used in the event of a major audit firm departing the market. It is intended that such a plan will provide the regulator with guidance and flexibility depending on each market's circumstances.

### Task Force on Credit Rating Agencies

The Task Force is finalizing work on how Credit Rating Agencies (CRAs) are implementing the IOSCO Code of Conduct Fundamentals. It was reassuring to note that for the most part there are few deviations from the IOSCO Code.

### Standing Committee on Multinational Disclosure and Accounting (TC SC1) chaired by Mr. Scott Taub (SEC USA)

TC SC1 is nearing completion of its work on the development of Debt Disclosure Principles. This follows release of the consultation paper which was published in October 2005. The Principles take into account submissions which were received. The Principles will be released in the near future.

Also nearing completion is the survey on issuer internal control requirements which is an invaluable contribution to the organisation's work in this field. A public version of this report will shortly be posted onto the IOSCO website.

In relation to the International Financial Reporting Standards (IFRS), TC SC1 reports that work on developing the database is in the final stages and should be operational before the end of 2006. Participating regulators will be able to commence entering decisions on the regulation and enforcement of IFRS into the database. The database is based in the offices of the IOSCO General Secretariat in Madrid. On other matters, TC SC1 has conducted a survey to determine the current accounting and non-financial statement

disclosure requirements and guidance that apply to the use of Special Purpose Entities (SPEs), as well as the level of audit assurance required for this information. It is anticipated that a report on this issue will be finalized by February 2007.

### Standing Committee on the Regulation of Secondary Markets (TC SC2) chaired by Ms. Susanne Bergstrasser (BaFin Germany)

Following a period of public consultation, TC SC2 has finalized the report dealing with "Regulatory Issues arising from Exchange Evolution". The report has been published on the website.

TC SC2 is also finalizing its work on multi-jurisdictional information sharing for market oversight. A summary of the results from this work will shortly be published on the Members Only area of the IOSCO website.

In relation to its review of the transparency of corporate bond markets, TC SC2 has concluded that the regulatory environment of this sector has not changed substantially in recent years. Therefore, additional measures to improve transparency are not considered necessary at this stage. This report is shortly to appear in the Members-only section of the IOSCO website.

This was the final meeting for Ms. Elisabeth Roegle as Chair of TC SC2 and the Technical Committee warmly thanked her for all her efforts in this capacity. Ms. Susanne Bergstrasser of BaFin was appointed as the new Chair of this Standing Committee.

*Susanne Bergstrasser*

*New Chair of TC SC2*



**Standing Committee on the Regulation of Market Intermediaries (TC SC3) chaired by Ms. Randee Pavalow (OSC Ontario)**

TC SC3 has recently commenced work on two new mandates. The first deals with oversight of intermediaries' adherence to rules of conduct. In this instance, it is intended to examine the methods used to oversight market intermediaries' compliance with rules of conduct and the extent to which these ensure the maintenance of high standards and the protection of investors.

In a separate project, TC SC3 will also commence work on developing recommendations or principles relating to point of sale disclosure by intermediaries to their customers. This project will include such aspects as information that should be disclosed as well as the timing and manner of disclosure. This work will be carried out in close consultation with TC SC5.

**Standing Committee on Enforcement and Exchange of Information (TC SC4) chaired by Ms. Megan Butler (FSA UK)**

Apart from the ongoing work which it is doing in relation to extending the coverage of the IOSCO MOU, TC SC4 is continuing its dialogue with certain jurisdictions with which specific enforcement co-operation issues have been experienced. Progress in this area has been constructive and has resulted in improvements. Given the success of this project, the Technical Committee has agreed to consider expanding the number of jurisdictions with which such a dialogue should be undertaken.

Following the adoption by the IOSCO Presidents Committee, in June 2006, of a resolution on cross-border cooperation to freeze assets derived from securities and derivatives violations, TC SC4 is pursuing further work related to this project.

**Standing Committee on Investment Management (TC SC5) chaired by Mr. Hubert Reynier (AMF France)**

Following the necessary consultation period, TC SC5 has now finalized its report dealing with the "Regulatory Framework for Hedge Funds" and this will shortly be posted onto the IOSCO website.

Meanwhile a related project is continuing based on an examination of the policies and procedures employed by hedge funds and their counterparties in the valuation of their assets. This work is being carried out with industry representatives with the aim of developing a single, global set of principles relating to the valuation of hedge fund assets. At this stage, the intention is to produce a paper for public consultation by April 2007.

In a separate project, TC SC5 has now finalized its analysis of the soft commission arrangements for Collective Investment Schemes (CIS). This project is considered timely since the amount of money involved in soft commission arrangements is high and conflicts of interest for CIS operators are readily evident. The consultation paper on this issue has now appeared on the IOSCO website. ■

## The Emerging Markets Committee

**The Emerging Markets Committee Advisory Board met in London on Wednesday 15 November 2006 and was chaired by Mr. Meleveetil Damodaran, who is also the Chairman of the Securities and Exchange Board of India.**



*The IOSCO Emerging Markets Committee meeting in session*



**Working Group on Disclosure and Accounting (EMC WG1) chaired by the CNV of Argentina (Mr. Emilio Ferré)**

WG1 has been working closely with TC SC1 on the study of issuer internal control requirements. This project was recently expanded to include coverage of general cost benefit issues. This report which has now been adopted will be posted in the Members-only section of the IOSCO website. It is also intended to subsequently issue a public version of this report.

**Working Group on Regulation of Secondary Markets (EMC WG2) chaired by the SC of Malaysia (Mr. Ranjit Ajit Singh)**

WG2 is continuing work related to liquidity in emerging markets. The aims are to examine more closely the relationships between market liquidity and factors such as market structures, financial policies, regulatory framework, trading infrastructure and the extent of a varied investor base. WG2 anticipates finalizing its report on this issue sometime during the first half of 2007.

**Working Group on Financial Intermediaries (EMC WG3) chaired by the SEC of Pakistan (Mr. Razi-Ur-Rahman Khan)**

WG3 has finalized its work in relation to capital adequacy requirements for financial intermediaries. This project has confirmed that there are wide variations in capital market development across emerging markets and that there are a number of associated challenges that result from this. The report on this issue will shortly be posted onto the IOSCO website.

**Working Group on Enforcement and the Exchange of Information (EMC WG4) chaired by the FSC of Poland (Mr. Pawel Pelc)**

WG4 continues to carry out work in relation to the preservation and repatriation of property in cross-border enforcement cases. This project seeks to assess the ability of EMC members to preserve and repatriate property where a violation of corporate and securities laws has occurred. It mirrors the work which TC SC4 had also carried out in the same area. It is anticipated that a report from WG4 on this issue will shortly be posted onto the IOSCO website.

The EMC Advisory Board also took the opportunity to formally thank Mr. Miroslaw Kachniewski, who recently was replaced by Mr. Pelc in his WG4 leadership role. The efforts of Mr. Kachniewski were commended in particular because they proved so useful in maintaining the momentum on progress in adopting the IOSCO MOU among members from the emerging markets.

**Working Group on Investment Management (EMC WG5) chaired by the CVM of Brazil (Mr. Carlos Sussekind)**

Following completion of their work on the state of the "Collective Investment Schemes" sector in emerging markets, WG5 has recently commenced a new mandate on CIS administration with a view to finalizing a report on this subject matter sometime during the first half of 2007. ■

## IOSCO Seminar Training Program stimulates dialogue on better regulation

**The Seminar Training Program (STP) is an annual event that forms an important part of the organisation's training and technical support mission. It brings together regulatory agency officers from the emerging markets and aims to transfer technical knowledge and expertise. The theme of this year's program was "Practical Approaches to Market Oversight"**

This year's program was structured around a number of information sessions and presentations which provided participants with the opportunities to learn about all aspects of market monitoring, investigation and enforcement.

An important and invaluable difference in this year's program was the inclusion of a specially tailored case study that was based on a fictional account of insider trading. Participants were challenged to take on the role of regulator and investigate the case which offered a number of scenarios and possibilities as to which party might have been responsible for insider trading.

The program also included information sessions on the IOSCO Principles

and the process as well as usefulness of the IOSCO Multilateral Memorandum of Understanding. These sessions were supplemented by other unique features of this year's program including panel discussions on Initial Public Offerings (IPOs) and an associated visit to the Bolsa de Madrid.

The STP which took place in Madrid from 2-6 October 2006 involved in excess of 60 participants from more than 40 jurisdictions around the world. Most of them were from emerging markets. The STP is an important part of the IOSCO mandate to promote high standards of regulation

and facilitate the transfer of related expertise. Among other aims it seeks to provide practical training for the management and staff of securities regulators as well as to foster the exchange of ideas, expertise and experience. ■



## SRO Consultative Committee (SROCC)

The IOSCO SRO Consultative Committee met in Madrid on 28 November 2006 and was chaired by Mr. Tatsuo Watanabe of the Securities Dealers Association of Japan.

During its meeting the Committee discussed a broad range of issues. Among topics raised were guiding regulatory principles in the event of a possible pandemic or other major disruption to capital and financial markets, implementation of principles on outsourcing and identification of beneficial owner issues.

This Committee comprises affiliate members representing self-regulatory organisations as well as securities and derivatives markets in developed as well as emerging markets from around the world. ■

## Joint IOSCO-FSI Seminar

For the first time IOSCO recently partnered with the Financial Stability Institute (FSI) to host a Joint Seminar on “The Application of Basel II to Trading Activities and the Treatment of Double Default Effects”. The Seminar which attracted more than 70 participants took place in Madrid on 7-8 November 2006 and covered a range of related topics including an update on counterparty credit risk and trading book related issues as well as the treatment of double default effects. ■

# General Secretariat News

### Forthcoming IOSCO Events

**Africa Middle East Regional Committee Seminar** in Dubai, 28-29 November 2006

**Implementation Task Force (ITF)** in Madrid, 4-5 December 2006

**Inter-American Regional Training Seminar** in Miami, 7-8 December 2006

**TC Standing Committee 4** in Madrid, 13-14 December 2006

**TC Standing Committee 3** in Madrid, 18-19 January 2007

**TC Standing Committee 2** in Sydney, 22-23 January 2007

**Executive Committee, Technical Committee, EMC Advisory Board Meetings** in Madrid 6-7 February 2007

**Conference on Corporate Governance** in Madrid, 8-9 February 2007

**TC Standing Committee 1** in London, 12-16 March 2007

**IOSCO Annual Conference** in Mumbai, 9-12 April 2007

### Recent Publications

The list of publicly released IOSCO reports is posted in the Library Section of the IOSCO Internet Home Page at [www.iosco.org](http://www.iosco.org)

Among the more recently published material:

- Regulatory Issues arising from Exchange Evolution – November 2006
- Soft Commission Arrangements – Consultation Paper – November 2006
- Regulatory Framework for Hedge Funds – November 2006
- Corporate Governance Board Independence Consultation Paper – November 2006
- High Level Principles for Business Continuity, Report by the Joint Forum – August 2006
- Collective Investment Schemes in Emerging Markets, Report by the EMC – July 2006. ■