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International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores

Mr. Mario Draghi
Chairman, Financial Stability Forum

12 November 2008

Mr. Guido Mantega
Minister of Finance, Brazil

Mr. Henrique Meirelles
Governor of the Central Bank, Brazil

Dear Messrs. Draghi, Mantega and Meirelles:

We understand that the Heads of State of the G-20 will meet in Washington DC on 15 November to discuss steps to address the current financial crisis and ways to mitigate future crises. We applaud the effort to consider these issues globally and, on behalf of the International Organization of Securities Commissions (IOSCO), offer our assistance in exploring common regulatory solutions.

Capital markets play an important role in the world's economies. IOSCO recognizes that investor confidence and transparency is fundamental to the success and liquidity of those markets, and that securities regulators are guardians of that trust. IOSCO also understands that regulation should not undermine the benefits of free markets, which require flexibility in order to function properly. IOSCO brings together considerable expertise and understanding of the role and regulation of securities markets. Accordingly, it establishes norms for securities regulators and serves as the leading policy forum for securities regulatory agencies. Its wide membership regulates over 95% of the world's capital markets.

IOSCO has laid the foundation for a strong securities regulatory landscape. In 1998, it adopted a comprehensive set of Objectives and Principles of Securities Regulation (IOSCO Principles), which are regularly updated and today are recognized as the international regulatory benchmark for all securities markets. Also, in 2002, in light of globalization, IOSCO developed a multilateral memorandum of understanding (IOSCO MOU) to facilitate cross-border cooperation and the exchange of information among the world's securities regulators in connection with the enforcement of securities laws and rules.

These principles are considered to be primary instruments to promote cross-border regulatory and enforcement cooperation, reduce global systemic risk, protect investors and ensure fair and efficient securities markets. IOSCO is committed to effective implementation of these principles by its wide membership. But political will must be galvanized to ensure that the IOSCO Principles are implemented in every country and that every securities regulator becomes a signatory to the IOSCO MOU, even where legislative change may be required.

Calle Oquendo 12
28006 Madrid
ESPAÑA
Tel.: (34.91) 417.55.49 • Fax: (34.91) 555.93.68
mail@oicv.iosco.org • www.iosco.org

In the face of the crisis, it has become evident that regulatory gaps, such as those posed by certain unregulated or under-regulated products, must be closed. It also is becoming increasingly clear that, while financial regulatory structures may remain national, consistent global solutions are desired by many. Given its technical expertise, its network of regulators, and relationship with the international financial community, IOSCO is well-positioned to consider and, where appropriate, devise common regulatory principles as they relate to the supervision of securities markets and market intermediaries.

Building on its existing principles for high quality securities regulation, IOSCO already is examining ways to address some of the regulatory gaps highlighted by the current crisis and to nurture the recovery of the financial markets. In particular, IOSCO has focused its work in the areas that are the province of securities regulators including:

- international financial reporting standards and the accountability of the standard setter to the community of national authorities responsible for reporting by public companies;
- building investor confidence, including through measures such as strengthening cross-border enforcement cooperation and addressing concerns about abusive short-selling in current market conditions;
- transparency in markets and disclosure with respect to all financial products; and
- establishing global norms for regulators of credit rating agencies through the IOSCO Code of Conduct Fundamentals for Credit Rating Agencies and promoting CRA compliance with rules through cooperative oversight and inspection.

Enclosed are statements outlining work that has been done by IOSCO in these areas as well as additional initiatives that are being undertaken.

To resolve this current crisis, cooperation and coordination among financial regulators and policy makers, supported by the political will to make necessary regulatory or legislative changes, are critical. We appreciate the efforts of the G-20 leaders to bring these issues to the international forefront, and we look forward to putting our technical expertise and well-developed infrastructure to use in considering common regulatory solutions. If you would like to arrange a time to discuss this further, please contact Mr. Greg Tanzer (g.tanzer@iosco.org), Secretary General of IOSCO.

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With best regards,

Jane Diplock, Chairperson New Zealand Securities Commission for the IOSCO Executive Committee	Christopher Cox, Chairman United States Securities and Exchange Commission IOSCO Technical Committee	Guillermo Larrain, Chairman Superintendencia de Valores y Seguros of Chile IOSCO Emerging Markets Committee

and on behalf of

Statements Enclosed

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STATEMENT BY THE INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSION REGARDING ACCOUNTING STANDARDS AND GOVERNANCE

The International Organization of Securities Commissions (IOSCO), following discussions of the important role of accounting standards in the context of the current financial crisis, and in light of the importance of financial reporting standards to the proper functioning of capital markets, has come together as a community of authorities responsible for capital markets and accounting to reaffirm its commitment to the development and enforcement of high quality accounting standards.

Accounting standards for public companies must provide clear, accurate and useful information to investors to allow them to make informed investment decisions. Furtherance of this goal promotes investor confidence in financial statements and capital markets. IOSCO strongly supports accounting standards that afford investors transparency, maintain market integrity, facilitate capital formation and are consistent with financial stability.

IOSCO also supports the development and use of robust, internationally accepted, and consistently applied financial reporting standards. To achieve such standards, the standard setting process must be accountable and subject to appropriate consultation. In this regard, IOSCO strongly supports International Financial Reporting Standards (IFRS) as developed by the International Accounting Standards Board (IASB).

The job of developing and maintaining high quality standards that provide transparency to investors relies to a critical extent on independent accounting standards setters, including the IASB. Standard setters will be best able to produce high quality standards if they are able to exercise independent judgment, relying on their skills, experience and due process, without undue political pressure and taking into account the views of all stakeholders. In this light, IOSCO stands ready as a community of capital market authorities to support accounting standards setters in their roles.

At the same time, IOSCO members are those with direct responsibility for protecting investors in our markets. To fulfill this duty, IOSCO members must have a means of ensuring that accounting standard setters are working in the best interests of investors. IFRS is being used in more and more jurisdictions around the world. It is critical for securities regulators that allow or require the use of IFRS in their jurisdictions (or are considering doing so) to maintain a balance between protecting the independence and integrity of the IASB as the standard setter for IFRS, while ensuring that the IASB is accountable for producing standards in the best interests of investors.

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To this end, IOSCO is working with the International Accounting Standards Committee Foundation (IASC Foundation), the public interest overseer of the IASB, to establish a Monitoring Board to enhance the accountability of the IASC Foundation and the IASB to world capital market authorities. Through this Monitoring Board, capital market authorities will approximate with the IASC Foundation and IASB the historical relationship they have had with national accounting standard setters. A Memorandum of Understanding between the Monitoring Board and the IASC Foundation will come into effect in the coming weeks.

As currently planned, the Monitoring Board, comprising IOSCO as well as the capital market authorities of the three largest securities markets,[1] will confer with and provide input to the Trustees of the IASC Foundation regarding their oversight of the IASB. In addition, the Monitoring Board will approve Trustee nominations. In this way, the Monitoring Board will act as a mechanism to hold the IASC Foundation accountable to the capital market authorities responsible for protecting investors. This will facilitate the ability of capital market authorities to effectively discharge their mandates relating to investor protection, market integrity and capital formation. At the same time, the IASB will maintain its independence as a standard setter. Earlier this year, the IASC Foundation proposed changes to its Constitution to recognize the role of the Monitoring Board.

More generally, IOSCO supports the proposition that global markets require a coordinated approach, particularly in the context of a crisis. IOSCO confirms its support for coordinated implementation of the standards produced by standards setters and for the cooperative enforcement of those standards.

[1] These authorities are the European Commission, Financial Services Agency of Japan, and US Securities and Exchange Commission.

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STATEMENT BY THE INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSION REGARDING EFFORTS TO ENHANCE INVESTOR CONFIDENCE DURING THE CREDIT CRISIS

The International Organization of Securities Commissions (IOSCO) notes the critical role of investor confidence in the proper functioning of markets. In this context, IOSCO reaffirms its commitment to increasing the efficacy of national regulation of capital markets through international cooperation, including with respect to short sales and enforcement assistance.

Actions relating to short sales

A number of IOSCO members have taken steps, during recent weeks, to address investor concerns regarding short sales in their markets. These efforts have focused particularly on the securities of financial institutions whose health may have an impact on financial stability.

IOSCO notes that short-selling plays an important role in the market for a variety of reasons, including providing more efficient price discovery, mitigating market bubbles, increasing market liquidity, facilitating hedging and other risk management activities and, importantly, limiting upward market manipulations.

However, short-selling may be problematic in the midst of a loss in market confidence. For example, in the context of a credit crisis, where some entities face liquidity challenges but are otherwise solvent, a decrease in their share price induced by short-selling may lead to further credit tightening for these entities, possibly resulting in bankruptcy. In addition, there are circumstances in which short-selling can be used as a tool to mislead the market. To minimize the possibility of abusive short selling, in particular at a time when the global credit markets are experiencing significant tightening, IOSCO members have taken steps or reconfirmed existing measures, including the following:

- Confirming or imposing new bans on naked short sales by requiring market participants to either borrow or make arrangements to borrow securities before conducting short sales transactions (in some jurisdictions this outcome was achieved with the cooperation of regulated or licensed exchanges), while ensuring bans on naked short sales do not negatively impact critical market functions such as securities lending and hedging;
- Requiring reporting by certain investors of short sales or net short sales positions to regulators, self-regulatory bodies, or the public;
- Conducting heightened surveillance of trading to detect abusive short selling; and

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- Agreeing to share surveillance information among members to address abusive short selling.

In addition to the above measures, some jurisdictions temporarily have taken supplementary steps to address particular concerns in their markets, including restrictions on covered short selling.

IOSCO plans to begin work to update the Technical Committee's 2003 Report on Transparency of Short Sales. This work will consider the effectiveness of recent regulatory responses and whether to establish principles regarding short sales, including with respect to reporting, delivery, and pre-borrowing requirements, as a means of reducing manipulative short selling without stifling legitimate short selling activity. In addition, it will examine ways to ensure that securities lending, hedging, and other types of transactions that are critical to capital formation and reducing market volatility are not adversely impacted.

Enforcement cooperation

More generally, IOSCO members have agreed to augment their international enforcement cooperation efforts in response to all other cross-border challenges that have emerged since the credit crisis began, and which are expected to continue to arise as the crisis unfolds. These challenges include novel types of cross-border market manipulation and other fraud, inappropriate uses of exotic financial products, and extreme market conditions that exacerbate the impact of regulatory non-compliance by market participants. These challenges make it incumbent on financial regulators to strengthen their cooperation with foreign counterparts and, where possible, to coordinate responses to problems.

IOSCO members can meet many of the tests posed by the current crisis with existing enforcement tools and mechanisms for international cooperation. IOSCO recognizes, however, that the transformative nature of this crisis may call for new approaches in the cross-border enforcement sphere. At a minimum, this crisis requires IOSCO members to strive to meet the highest standards of enforcement cooperation on an expedited basis.

IOSCO members have a long and successful history of enforcement cooperation. The *IOSCO Objectives and Principles of Securities Regulation* (IOSCO Principles), adopted in 1998 and updated in 2003, provided an analysis of the basic tools needed by securities regulators for successful enforcement cooperation. These tools included the authority to collect information on each other's behalf, including statements and documents in connection with the investigation and prosecution of potential securities law violations.

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Building on these Principles, IOSCO created the Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information of 2002 (IOSCO MOU). With nearly 50 signatories, the IOSCO MOU provides a mechanism through which securities regulators share with each other essential investigative material, such as beneficial ownership information, and securities and derivatives transaction records, including bank and brokerage records. Further, IOSCO members have committed to seeking the authority needed to provide the assistance described in the IOSCO MOU by 2010.

Notwithstanding the success of the IOSCO MOU in fighting securities laws violations, the pandemic nature of the present crisis has highlighted the need to continue to expand the frontiers of enforcement cooperation. International enforcement cooperation must be as dynamic as the perpetrators of unlawful cross-border securities activities. As IOSCO endeavors to bring all its members up to the minimum standard for international enforcement cooperation required by the IOSCO MOU, it also is exploring new ways to combat fraud and other violations through cooperation. For example, IOSCO has encouraged its members to develop mechanisms to freeze assets obtained through cross-border securities violations, on behalf of a foreign regulator, to deny wrongdoers the benefits of their ill-gotten gains. IOSCO urges governments to take the actions necessary to provide regulators with the tools to strengthen cross-border enforcement.

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STATEMENT BY THE INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS REGARDING TRANSPARENCY IN MARKETS AND FINANCIAL PRODUCTS

The International Organization of Securities Commissions (IOSCO) has long recognized the importance of transparency in markets and financial products to the proper functioning of markets and to ensuring that investors have confidence in the information on which they base their investment decisions.

In 1998, IOSCO published the *International Disclosure Standards for Cross-Border Offerings and Initial Listings by Foreign Issuers*, which contain detailed disclosure standards applicable to equity securities. As a follow-up project, in 2007, IOSCO developed the *International Disclosure Principles for Cross-Border Offerings and Listings of Debt Securities by Foreign Issuers*, which set forth substantive disclosure principles for documents used in public offerings and listings of debt securities.

In issuing these standards, IOSCO took important steps in enhancing the comparability of information provided by multinational issuers when conducting a cross-border public offering or listing, while also ensuring a high level of investor protection. Both are widely accepted as international benchmarks for disclosure.

In the wake of the current financial crisis, regulatory gaps created by certain unregulated or under-regulated products, such as derivatives traded on the over-the-counter market, have become readily apparent. Moreover, the financial crisis has demonstrated the harmful systemic impact resulting from the lack of transparency about such products. Guidance should be provided to the markets on appropriate disclosures for these products.

IOSCO recognizes that the current regulatory framework in many jurisdictions does not apply to certain financial instruments that have been significantly involved in the credit crisis, resulting in minimal information having been made available to regulators, investors and market participants about these instruments. Policy makers will need to consider necessary legislative changes to fill these gaps in legal and regulatory authority.

For its part, IOSCO will begin studying ways to enhance the quality of the over-the-counter markets for derivative products and other financial instruments, such as by increasing transparency, with a view to providing guidance to securities regulators who are developing disclosure regimes for such products. In addition, IOSCO also will consider how to improve the interaction between public markets and over-the-counter markets. International disclosure

Calle Oquendo 12
28006 Madrid
ESPAÑA
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mail@oicv.iosco.org ● www.iosco.org

standards in these areas would facilitate a better understanding of issues that should be considered when establishing disclosure requirements for these products as a means of enhancing investor protection and mitigating systemic risk. Also in relation to market transparency, IOSCO has established two separate task forces to explore the evolution of commodity markets and the role of sovereign wealth funds in public markets.

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STATEMENT BY THE INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS REGARDING THE OVERSIGHT OF CREDIT RATING AGENCIES

The International Organization of Securities Commissions (IOSCO) continues to work to address concerns about the role of credit rating agencies (CRAs) in the recent financial crisis. Structured finance products backed by US subprime retail mortgages have figured prominently in the recent global market turmoil, and the quality of the credit ratings of these products – and the CRA policies and methodologies that resulted in these ratings – have been questioned by many securities regulators and market observers.

To address concerns about the actions of CRAs in the credit crisis, in June 2008, IOSCO published a revised version of the *IOSCO Code of Conduct Fundamentals for Credit Rating Agencies* (Code of Conduct), as well as a report entitled *The Role of Credit Rating Agencies in Structured Finance Markets.* These documents examine the manner in which CRAs participated in the expansion of the structured finance markets, and suggest steps that CRAs should undertake to address concerns about the integrity of ratings and conflicts of interest relating to structured finance products.

IOSCO believes that, for the Code of Conduct to be effective, CRAs must comply with the disclosures prescribed by the Code and regulators should take steps to determine the veracity of these disclosures. In September, IOSCO identified four measures which it believes will further contribute to improved international monitoring of CRAs and serve to address the issues that have contributed to the failures in the structured finance products market:

- IOSCO favors a consistent global regulatory approach to monitoring the activities of CRAs. It urges legislators to consider the regulatory consensus represented by the IOSCO Code of Conduct when framing legislation as any fragmentation runs the risk of a reoccurrence of problems with product ratings;
- While global legislative efforts run their course, IOSCO's Task Force on Credit Rating Agencies (TFCRA) will work towards developing mechanisms by which national regulators can coordinate their monitoring of CRAs with the substance of the Code of Conduct. The TFCRA will explore a common monitoring module and set the terms and conditions of information exchange and cooperation by January 2009;
- The TFCRA also will conduct a review of CRAs' adoption of codes of conduct based on the revised Code of Conduct and will publish its findings in January 2009; and
- Events in the last 12 months have clearly shown the need for greater interaction between CRAs and regulators and the TFCRA will examine the possibility of

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developing an international monitoring body to discuss issues with CRAs and to advance the expectations of the international regulatory community.

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