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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

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Global securities regulators adopt new principles and increase focus on systemic risk

The International Organization of Securities Commissions (IOSCO) has published its revised *Objectives and Principles of Securities Regulation* (Principles) to incorporate eight new principles, based on the lessons learned from the recent financial crisis and subsequent changes in the regulatory environment, which are designed to strengthen the global regulatory system against future crises.

The eight new principles cover specific policy areas such as hedge funds, credit rating agencies and auditor independence and oversight, in addition to broader areas including monitoring, mitigating and managing systemic risk; regularly reviewing the *perimeter* of regulation; and requiring that conflicts of interest and misalignment of incentives are avoided, eliminated, disclosed or otherwise managed.

The Principles, which are an agreed set of high-level global standards outline the basis of an appropriate, effective and robust securities regulatory system, therefore their proper implementation by securities regulators is critical to the creation and maintenance of a sound global regulatory system. The Principles also play an important role in promoting a sound global financial regulatory system through their use by the International Monetary Fund (IMF) and World Bank assessors in the performance of the securities sector element of country Financial Sector Assessment Programs.

Jane Diplock, Chairman of the Executive Committee, said:

“The global spotlight is focused on financial regulation, its form and function and regulatory outcomes, as the world strives to emerge from the greatest financial crisis in

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recent times it is challenging regulators to provide cogent answers. In our IOSCO meetings this week we have risen to that challenge and accomplished a significant reform of the basis for global securities regulation.

“We have achieved this through the formulation of eight new principles of securities regulation which are to be implemented globally including, very importantly, two principles addressing systemic risk in markets. Where traditional economic orthodoxy has considered systemic risk to be only a matter for prudential regulators, the financial crisis has shown us that financial stability depends on both of the virtuous twins of effective market regulation and effective prudential regulation.

“Therefore markets matter for the identification and management of systemic risk and the new IOSCO principles concerning systemic risks in markets recognize the vital importance of this concept.

Finally, in response to the changing regulatory environment, IOSCO has also this week reformulated its strategic mission and goals with the aim of maintaining the organisation’s position as the international standard setter for securities regulation and promoting the protection of investors, and fair, efficient and transparent markets.”

Jean St-Gelais, Chairman of the Presidents’ Committee and CEO of the Quebec AMF, said:

“The concern of the day remains more than ever the question of systemic risk. This issue is also a matter of concern for major organizations such as the G20 and the Financial Stability Board. The Autorité des marchés financiers, together with the Ontario Securities Commission, are pleased to co-chair the first phase of this new working group of the International Organization of Securities Commissions on systemic risk.”

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Systemic Risk Principle

This new Principle recognises the need for Regulators to be conscious of systemic risk and the role they play in relation to it. The financial crisis has highlighted that financial markets which IOSCO members regulate, or may be exempt from regulation, can be the mechanism by which risk is transferred within the financial system. Under the new principle the Regulator should have, or contribute to, regulatory processes to monitor, mitigate and appropriately manage such risks. Regulators should have particular regard to investor protection, market integrity, transparency and the proper conduct of business within markets as contributing factors to reducing systemic risk.

The eight new principles added to the current 30 are:

- **Principle 6:** The Regulator should have or contribute to a process to monitor, mitigate and manage systemic risk, appropriate to its mandate;
- **Principle 7:** The Regulator should have or contribute to a process to review the perimeter of regulation regularly;
- **Principle 8:** The Regulator should seek to ensure that conflicts of interest and misalignment of incentives are avoided, eliminated, disclosed or otherwise managed;
- **Principle 19:** Auditors should be subject to adequate levels of oversight.;
- **Principle 20:** Auditors should be independent of the issuing entity that they audit;
- **Principle 22:** Credit rating agencies should be subject to adequate levels of oversight. The regulatory system should ensure that credit rating agencies whose ratings are used for regulatory purposes are subject to registration and ongoing supervision;
- **Principle 23:** Other entities that offer investors analytical or evaluative services should be subject to oversight and regulation appropriate to the impact their activities have on the market or the degree to which the regulatory system relies on them; and
- **Principle 28:** Regulation should ensure that hedge funds and/or hedge funds managers/advisers are subject to appropriate oversight.

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IOSCO's Goals and Priorities

IOSCO has this week reformulated its mission statement which will guide its goals and priorities over the next 5 years, which include:

- maintaining and improving the international regulatory framework for securities markets by setting international standards;
- identifying and addressing systemic risks;
- Strengthening our role in the international financial community in order to advance implementation of the IOSCO Principles.

IOSCO has also published a briefing note outlining the decisions reached at this year's Annual Conference.

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NOTES FOR EDITORS

1. The revised [Objectives and Principles of Securities Regulation](#) are available on the IOSCO website.
2. [Final Update on IOSCO 2010 Annual Conference](#) is available on the IOSCO website.
3. IOSCO is recognized as the leading international policy forum for securities regulators. The organization's membership regulates more than 95% of the world's securities markets in over 100 jurisdictions and its membership is steadily growing.
4. Ms. Jane Diplock, Chairman of the New Zealand Securities Commission, is the Chairperson of the Executive Committee;

Mr. Jean St-Gelais is President and CEO of the Autorité des marchés financiers of Québec, and as head of the host organisation is Chairman of the Presidents' Committee for the duration of the Annual Conference.

5. IOSCO aims through its permanent structures:
 - to cooperate in developing, implementing and promoting adherence to internationally recognised 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.

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