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International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
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IOSCO Publishes Suitability Requirements for Distribution of Complex Financial Products

The International Organization of Securities Commissions (IOSCO) today published a final report on *Suitability Requirements with respect to the Distribution of Complex Financial Products*, which sets out principles relating to the distribution by intermediaries of complex financial products to retail and non-retail customers.

The report, which forms part of IOSCO's ongoing drive to promote customer protection, introduces nine principles that cover the following areas related to the distribution of complex financial products by intermediaries:

- Classification of customers
- General duties irrespective of customer classification
- Disclosure requirements
- Protection of customers for non-advisory services
- Suitability protections for advisory services (including portfolio management)
- Compliance function and internal suitability policies and procedures
- Incentives
- Enforcement

Although complex financial products may not be necessarily more risky than standard financial instruments, they typically have terms, features and potential investment risks that may make it difficult for many customers, even non-retail customers, to appreciate fully. The financial crisis that began in 2008 raised serious concerns that the growing complexity of financial products made the associated investment risks less apparent to customers.

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In particular, the collapse of Lehman Brothers in September 2008 highlighted the extent to which intermediaries failed to assess the suitability of structured investment products for retail and non-retail customers. In response to the crisis, G20 leaders set forth a number of common principles for reform of financial markets at their meeting in Washington, D.C. in November 2008. The key points included the promotion of financial markets integrity by encouraging, *inter alia*, “a review of business conduct rules to protect markets and customers”.

In mid-2008 the Joint Forum - of which IOSCO is a Parent Committee – completed the report *[Customer suitability in the retail sale of financial products and services](#)*, which provided an in-depth analysis of customer suitability in the retail sale of financial products and services. It also gave an overview of how supervisors and regulated firms across the banking, securities and insurance sectors address the risks posed by mis-selling of retail financial products, including related regulatory requirements.

An important part of the Joint Forum’s work was to survey some 90 financial firms around the world as to how they deal with customer suitability, and manage the risks posed by mis-selling. The project sought information on how suitability requirements applied to complex instruments such as (but not limited to) options, hedge funds, variable insurance products, direct participation programs/limited partnerships and real estate investment trusts (“REITs”), but did not focus exclusively on that topic.

This Final Report is intended to complement the Joint Forum’s work.

Stephen Po, the Chair of the IOSCO Committee on Market Intermediaries that drafted the Final Report, said: “These principles provide guidance for IOSCO Members and reflect the current regulatory state of play and leading practice in the distribution of complex financial instruments by intermediaries among IOSCO’s members. IOSCO is aware that this is an area undergoing constant change and innovation. It will continue to monitor closely future market and regulatory developments which may lead to further policy work in the future.”

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NOTES FOR EDITORS

1. IOSCO, the leading international policy forum for securities regulators, is recognized as the global standard setter for securities regulation. The organization's membership regulates more than 95% of the world's securities markets in 115 jurisdictions and it continues to expand.
2. The IOSCO Board is the governing and standard-setting body of the International Organization of Securities Commissions (IOSCO), and is made up of 32 securities regulators. Mr. Masamichi Kono, Vice Commissioner for International Affairs at the Financial Services Agency of Japan (JFSA), is the Chairman of the IOSCO Board. The members of the IOSCO Board are the securities regulatory authorities of Argentina, Australia, Belgium, Brazil, Chile, China, France, Germany, Hong Kong, India, Italy, Japan, Korea, Malaysia, Mexico, Morocco, the Netherlands, Nigeria, Ontario, Pakistan, Portugal, Quebec, Romania, Singapore, South Africa, Spain, Switzerland, Trinidad and Tobago, Turkey, United Kingdom and the United States.
3. The Emerging Markets Committee is a specialized working group established by IOSCO's Executive Committee, representing the world's emerging financial markets. It endeavors to promote the development and improvement in efficiency of emerging securities and futures markets by establishing principles and minimum standards, preparing training programs for the staff of members and facilitating exchange of information and transfer of technology and expertise.
4. IOSCO aims through its permanent structures:
 - to cooperate in developing, implementing and promoting adherence to internationally recognized and consistent standards of regulation, oversight and enforcement in order to

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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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