MEDIA RELEASE

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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IOSCO Publishes Principles for the Regulation of Exchange Traded Funds

The Board of the International Organization of Securities Commissions today published the final report on *Principles for the Regulation of Exchange Traded Funds*, containing nine important principles intended to guide the regulation of ETFs and foster industry best practices in relation to these products.

Investor interest in ETFs has increased worldwide as evidenced by the sharp increase in funds invested in these types of products. Assets managed under ETF structures totaled almost USD 1.9 trillion at end January 2013, representing roughly 7% of the global mutual fund market. This dynamic growth in ETFs has gradually attracted the attention of regulators, concerned about the potential impact of ETFs on investors and on the broader marketplace, as the industry has continued to evolve through diversification and the launch of new innovative products.

Already in the course of 2008-2009, IOSCO began to look more closely at the rise of ETFs, helping to launch an extensive debate, both within and outside the regulatory community (i.e., involving asset managers, investors, and other multilateral institutions), on ways for regulators to address the specificities of these products, while also seeking to address their potential risks. Numerous consultations among IOSCO's member regulators and their repeated engagements with representatives of the global ETF industry have led to this report. As such, it reflects a shared consensus within the regulatory community as to how the regulation of ETFs should be approached. Taking into account the comments expressed during the consultation process, IOSCO has focused its final recommendations on features that are specific to ETFs. The principles address ETFs that are organized as Collective Investment Schemes (CIS) and do not apply to other, non-CIS, Exchange-Traded Products (ETPs).

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The report is structured in two main sections. The first section concerns ETF classification and relevant disclosures for investors, including principles intended to clearly differentiate ETFs from other non-CIS ETPs, as well as from other CIS. Important in this regard is that investors are able to appreciate both the similarities and differences of ETFs with other competing products, as well as the way ETFs achieve their investment objective and the quality of their performance typically vis-à-vis a reference index. Further principles encourage the disclosure of related fees and expenses, including the eventual impact of securities lending on these, as well as complete, accurate and understandable disclosure to address the types of risks investors may be exposed to particularly through ETFs using complex strategies that may involve the use of leverage (or reverse leverage).

The second section addresses concerns tied to the structuring of ETFs as such, including the management of potential inherent conflicts of interest and of counterparty risks arising from the two main types of replication methods: physical and synthetic. IOSCO encourages regulators to consider imposing requirements to ensure that ETFs appropriately address risks raised by counterparty exposure and collateral management. A conclusive section of the report addresses ETFs in a broader market context, underscoring the importance of intermediaries' disclosure and conduct requirements (particularly in terms of product suitability) and referring to other work that may be relevant.

NOTES FOR EDITORS

1. IOSCO is the leading international policy forum for securities regulators and 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 more than 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. Greg Medcraft, chairman of the Australian Securities and Investments Commission, is the chair of the

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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, representing the world's emerging financial markets. It seeks 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 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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