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IOSCO/MR/24/2013

Montreal, 01 July 2013

IOSCO Board focuses on behavioral economics and social media

And continues its forward-looking and proactive work on global financial regulatory reform

The Board of the International Organization of Securities Commissions (IOSCO) met in Montreal to advance its work on regulatory reform and seek new ways to enhance market integrity and efficiency, identify and reduce systemic risk, and strengthen investor protection.

The two day meeting on 18 – 19 June highlighted IOSCO’s commitment to identifying emerging risks and new market trends in a proactive and forward-looking way. The meeting was the first chaired by new Board Chairman Greg Medcraft of the Australian Securities and Investments Commission.

The meeting was preceded by a Round Table attended by the Board and six external experts drawn from industry, academia and the regulatory community on behavioral economics and social media. The participants discussed how regulators could best use behavioral economics to build confidence and encourage informed decision making by retail investors. They also analyzed the opportunities and the risks that social media pose for the financial service industry and market regulators. Board members agreed to embed behavioral economics in IOSCO’s approach to regulatory work going forward, as a means to enhance the effectiveness of market regulation. Members also agreed that social media could serve as a vehicle to influence investor behavior, gather market intelligence and identify market trends, thereby furthering IOSCO’s effort to be proactive and forward looking. IOSCO’s new Committee on Retail Investors also was encouraged to examine this issue.

Mr. Medcraft outlined the challenges securities regulators face globally and the role IOSCO would play in dealing with them.

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‘The major challenges we face are structural change, the risks posed by innovation and the ongoing globalization of our markets. By being proactive and forward looking, IOSCO through its standard setting work, engagement with industry and stakeholders and co-operation among its members can make a significant contribution to those challenges. My vision is for IOSCO to be the key reference point for financial markets and services regulation,’ he said.

The meeting made progress in finalizing its important work on *Margin Requirements for Non-Centrally Cleared Derivatives*, with agreement reached on the next steps for finalizing the *Principles for Financial Benchmarks*. The IOSCO Board also agreed on a series of internal organizational improvements that seek to streamline its decision making and increase its inclusivity.

The Board approved the appointment of Ranjit Ajit Singh, the Chair of the IOSCO Emerging Markets Committee (EMC), as a Vice-Chair of the IOSCO Board. It also proposed to rename the EMC as the Growth and Emerging Markets (GEM) Committee, and it agreed to recommend a by-law amendment that would allow the EMC Chair to be ex officio the co-Vice Chair of the Board. The move would ensure a strong representation of the EMC on the Board.

The meeting highlighted the Board’s resolve to meet its objectives of reducing systemic risk and ensuring that investors are confident and informed, and markets are fair and efficient through:

- Standard-setting;
- Engagement with members, industry and policy makers; and
- Co-operation across its membership.

The Montreal IOSCO Board meeting covered the following areas:

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Standard-setting

The meeting discussed important standard setting initiatives to address important regulatory concerns.

Financial Benchmarks

The Board reviewed the final *Principles on Financial Benchmarks* developed by the Board-level Task Force on Financial Market Benchmarks. The Board agreed to clarify several concepts flagged during consultation including data sufficiency, transparency of benchmark determination and the need for stronger language on enforcement. The Principles will be published by mid-July.

G20/FSB mandates to repair the financial system

The Board advanced work on the *Principles for margin requirements for non-centrally cleared derivatives*-- an essential plank of the G20's OTC reform agenda. The Board discussed a number of issues arising from recent consultation, including whether and how rehypothecation would be permitted and the treatment of cross-currency swaps. The discussions paved the way for IOSCO to finalize the Principles in collaboration with the Basel Committee on Banking Supervision during July.

The Chairman outlined Financial Stability Board proposals for taking forward work on aggregation of trade repository (TR) data. He emphasized the importance of IOSCO playing a leading role in this work alongside the Financial Stability Board and other standard-setting bodies, in order to help regulators gain a comprehensive and accurate view of the global OTC derivatives markets and activities.

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Emerging and Systemic Risk Identification

The Standing Committee on Risk and Research (SCRR) and the IOSCO Research Department updated the Board on their forward work plan on identifying and measuring systemic risks. The Board also provided ideas for improving the methods used by IOSCO research to assess emerging risks, and agreed to rename the SCRR as the Committee on Emerging Risks (CER).

The Board noted that the identification of risk is an essential part of the new approach to securities regulation. It agreed that the SCRR and the Research Department should consider establishing a new work stream focused on gathering high-quality data on global securities markets to facilitate IOSCO's work on risk identification.

The Board also considered a report from the IOSCO Assessment Committee about its Thematic Review on members' implementation of IOSCO's Principles 6 and 7 about processes to monitor, manage and mitigate systemic risks and review the regulatory perimeter. A final report outlining the generally good progress by participating members in putting these processes in place is expected to be published during the summer.

International Financial Reporting Standards

The Board discussed the work of the International Accounting Standards Board on a converged approach to financial asset impairment recognition. Members affirmed IOSCO's support for a set of high-quality global Accounting Standards in the interest of protecting investors and of market transparency.

The Board also agreed to dedicate resources to understand the current global efforts on integrated reporting because it may bear on issuer disclosure to investors.

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New Work Streams

The meeting confirmed the establishment of a new Task Force on Cross Border Regulation and a new Committee on Retail Investors.

Ashley Alder, the Chair of the Hong Kong Securities and Futures Commission, was appointed chair of the Task Force on Cross-Border Regulation; Anne Hérítier Lachat, Chair of the Swiss Financial Market Supervisory Authority (FINMA), was appointed Vice Chair.

IOSCO has asked the Task Force to develop a tool box of measures for regulating securities markets activities that cross borders. If appropriate, the task force will develop principles to guide the coordinated use of these tools, which may include substituted compliance, mutual recognition and supervisory co-operation. The Task Force's work is intended to help policy makers and member regulators address the challenges they face in regulating cross-border activity. Achieving greater consistency in cross-border regulatory approaches is aimed at enhancing financial market stability and facilitating measures that take forward the G20 and FSB financial regulatory reform.

The Board also approved the appointment of Howard Wetston, Chair of the Ontario Securities Commission as chair of the Committee on Retail Investors. Leonardo Pereira, Chair of the Comissão de Valores Mobiliários of Brazil, was appointed Vice Chair of the committee, which was given a broad mandate to lead IOSCO's work on retail investor education and protection. The aim of the committee is to ensure IOSCO takes a consistent and comprehensive approach to retail investment products and services. By focusing on investor education, it will enable IOSCO members to share their experiences and build expertise globally in financial literacy.

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Prioritization and rationalization of future standard setting work

Members also discussed how best to prioritize and rationalize IOSCO's work streams in an effort to focus on areas that deliver the maximum benefit to the organization and its members. Some members noted the need for IOSCO to consider further work on audit quality.

Engagement

The Board meeting again underscored IOSCO's commitment to engaging stakeholders and the broader IOSCO membership, in order to better understand their needs and the challenges they face.

The Emerging Markets Committee

During its discussions on the future role of the EMC under the new organizational structure introduced to IOSCO in May 2012, the Board proposed to rename the committee the Growth and Emerging Markets Committee at the IOSCO Annual Conference in September. Emerging markets account for 75% of IOSCO membership, which gives the EMC significant responsibility for the development and implementation of IOSCO standards on a global level. Board members agreed that the emerging markets would play an increasingly important role as a source of financing for the global economy, and discussed how best to give these jurisdictions a bigger say in IOSCO decision making.

Board membership and working procedures

The Board approved - in principle - changes to its composition that increase the representation of emerging markets and seek to ensure the Board represents the world's largest securities markets, and is both inclusive and representative of the IOSCO membership. Established in May 2012 through the

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merger of the Executive Committee, the Technical Committee and the Emerging Market Committee Advisory Board, the Board will put in place a permanent basis for determining its membership for the Annual meeting in Rio de Janeiro in September 2014.

IOSCO Chair Greg Medcraft noted the dynamic, new criteria for determining Board membership would give fast growing emerging markets the opportunity to join the Board as their securities markets gained in size and sophistication.

The Board also approved a series of clear and transparent working procedures aimed at enhancing its internal governance structure and improving the efficiency and effectiveness of its work.

Co-operation

IOSCO's ongoing commitment to fostering co-operation across its membership was reflected during discussions on key initiatives.

New Measures to Promote the Multilateral Memorandum of Understanding on the exchange of information

The IOSCO Board approved a draft resolution on graduated additional measures to encourage non-signatory members to sign the IOSCO Multilateral Memorandum of Understanding on cooperation and exchange of information, the instrument used by securities regulators around the world to combat cross-border fraud and misconduct. It reiterated IOSCO's commitment to provide technical assistance and political support to non-signatories in an effort to ensure they sign the MMoU. The Board agreed to propose the resolution to the IOSCO Presidents Committee for final approval at its annual meeting in September.

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On 19 June the Security and Exchange Commission of Trinidad and Tobago became the 95 IOSCO member to sign the MMoU, after it met all the conditions for becoming a signatory. Together these members regulate about 95% of the world's securities markets. However, 29 members have yet to become signatories. As long as these jurisdictions remain outside the international enforcement regime, they offer potential safe havens for wrong doers and create gaps in IOSCO's global enforcement network.

The IOSCO Foundation

The meeting noted progress made in its work to establish the IOSCO Foundation. The meeting agreed to further progress work on fundraising and on finalizing the Foundation's operational structure.

Other organizational issues

Dr. Craig Lewis, Chief Economist and Director of the Division of Economic and Risk Analysis, at the U. S. Securities and Exchange Commission, was elected the Vice Chair of the SCRR/CER.

The meeting also heard updates from the Audit Committee and discussed processes for the admission of new IOSCO members.

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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 IOSCO Board. The members 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 endeavors to promote the development and greater 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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