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IOSCO confirmed as the Key Global Reference Point for Securities Regulation

Members of the International Organization of Securities Commissions (IOSCO) met during its Annual Conference this week to discuss how to advance work on global regulatory reform and the identification of emerging risks in securities market.

The meetings were an opportunity for IOSCO to confirm its position as the key global reference point on securities regulation for policy makers, industry and global regulators, in ensuring investors are confident and informed, markets are fair, efficient and transparent and systemic risk is reduced.

IOSCO Board Chair Greg Medcraft said: *“IOSCO is playing an increasingly important role in meeting the many challenges securities regulators face today. The G20 Leaders recognized our role at their recent meeting in St Petersburg.”*

“Market based finance is becoming increasingly important in supporting economic growth. While generally having real economic benefits, financial innovation may introduce complexity which poses particular risks to investors and markets. Globalization challenges us to ensure consistent global regulation and a level playing field for securities markets” Greg Medcraft said.

“Each of these challenges is a real opportunity for IOSCO – through its standard setting work, through how it engages with industry, regulators and policy makers and through its co-operation activity, particularly in the areas of supervision and enforcement. IOSCO must continue to ensure it is proactive and forward looking in meeting these challenges,” he added.

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The IOSCO meetings progressed work in a number of areas of global regulatory reform.

Members discussed how to move forward with work requested by the G20 on key issues for securities markets, including OTC derivatives, financial benchmarks, credit rating agencies and shadow banking.

Members

- Confirmed their determination to work together to identify emerging risks in a proactive and forward-looking way;
- Committed to IOSCO playing an increasingly active role in promoting the finance of long-term investment through capital markets – in areas as diverse as corporate bond markets, securitization, SME finance and Islamic Finance. They agreed to begin work on crowd funding;
- Discussed the need for further work to improve audit quality;
- Highlighted the growing importance of implementing IOSCO principles and recommendations to promote well regulated markets.

Members considered proposals to strengthen cross-border cooperation among regulators. Members approved new measures to ensure full compliance with the IOSCO Multilateral Memorandum of Understanding on cooperation and exchange of information (MMoU). They stressed that greater cross-border cooperation facilitated IOSCO's enforcement efforts and promoted the implementation of its recommendations across jurisdictions.

The meetings continued recent initiatives to streamline IOSCO's governance structure and decision-making process. Members approved further measures to reinforce the new streamlined structure to reflect better the interests of the IOSCO membership, from both developed and emerging markets.

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The Board agreed to begin work on a strategic plan for 2015-2020 (IOSCO 2020) that would define the outcomes IOSCO would seek to achieve by 2020 and lay down the roadmap for meeting those outcomes. A key objective of this project is to identify the resources IOSCO needs to achieve its goals and the means to finance them.

Standard-setting and implementation

The Board discussed the activities of its policy standard-setting committees and the initiatives to monitor the implementation of existent policy principles and recommendations.

G20/FSB mandates to repair the financial system

IOSCO discussed progress on reform work mandated by the G20 Leaders and coordinated by the Financial Stability Board.

The Board reviewed a draft report on IOSCO's work on developing methodologies to identify **non-bank systemically important financial institutions (non-bank SIFIs)**. The IOSCO project forms part of a broader G20 mandate on Global SIFIs that encompasses work by the Basel Committee on Banking Supervision and the International Association of Insurance Supervisors on systemically important institutions in the banking and insurance sectors. The draft report presents the rationale behind the methodologies developed by IOSCO. The Board agreed that Masamichi Kono, Vice Commissioner of the Japan FSA, will coordinate the next phase of this work across IOSCO work streams.

Continuing its focus on supporting the increasing role of market based finance in supporting economic growth, the Board agreed in principle to progress proposals to establish a cross-sectoral working group on **securitization**. The work will build on recommendations made in the IOSCO Board report, *Global Developments in Securitisation Regulation*, published in November 2012.

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The Board heard updates on implementation of **OTC derivatives reforms** and the work of the OTC Derivatives Regulators Group on cross border issues – which is to meet later this week in Paris.

The Co-Chairs of the IOSCO Committee on **Commodity Derivatives** informed the Board on progress made in implementation of the Principles for the Regulation and Supervision of Commodity Derivatives Markets and the Principles for Oil Price Reporting Agencies (PRA Principles).

The PRA Principles were developed in collaboration with the international organizations, IEA, IEF and OPEC. The final report on price reporting agencies was published in October 2012 and stipulates the principles should be implemented by October 2013. The Co-Chairs said the responses to a self-assessment questionnaire on implementation indicated the PRAs had made significant efforts to implement the Principles.

The Board was updated on the revision to the IOSCO Code of Conduct Fundamentals for **Credit Rating Agencies**, which is aimed at enhancing transparency and competition. Transparency allows investors to compare the practices of CRAs and allows smaller CRAs and new entrants to establish points of observable competitive differences from the three largest CRAs. The Board discussed how IOSCO could support reduction of reliance on credit ratings and noted work to be progressed by Committees 3 and 5.

Financial Benchmarks

The Board approved in principle a proposal to conduct a review requested by the FSB of the application of the Principles of Financial Benchmarks to EURIBOR, LIBOR and TIBOR. The Principles were issued in July by the IOSCO Board-Level Task Force on Financial Benchmarks, which is co-chaired by Martin Wheatley, the Chief Executive of the UK Financial Conduct Authority, and Gary Gensler, the Chairman of the US Commodity Futures Trading Commission.

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Capital Markets and Long Term Investment

The Board recognized the important contribution IOSCO and its members can make to ensuring capital markets play a leading role in supporting long term investment in both growth and emerging and developed economies. The Board asked IOSCO Vice Chairs Ranjit Singh and Howard Wetston to lead IOSCO's work in this area.

This work is particularly critical following the recent call made by the G20 Leaders to identify measures to facilitate domestic capital market development and improve the intermediation of global savings for productive long-term investments.

The next IOSCO Annual Conference in Rio in September 2014 with its theme *Market Based Financing for Global Economic Growth – A Forward Looking Approach* - will be an opportunity to discuss and assess progress in these important areas.

International Financial Reporting Standards

The Board approved a joint statement by IOSCO and the IFRS Foundation outlining the protocols for their cooperation on the development and implementation of IFRS. IOSCO has long supported the IFRS Foundation's objectives of developing high quality and globally accepted financial reporting standards and the promotion of their use and rigorous application. It believes the development and consistent application of IFRSs will facilitate transparency within the capital markets.

The statement envisions greater cooperation between IOSCO's Committee on Issuer Accounting, Audit and Disclosure and the International Accounting Standards Board, the independent, accounting standard-setting body of the IFRS Foundation. Timely communication between securities regulators and the IASB and its staff can lead to the early detection of implementation issues.

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The Board agreed that representatives of IOSCO and the IFRS Foundation will meet within two years to review the protocols and determine whether to improve them.

Implementation Assessment

The Board heard updates on the work of the Assessment Committee, established in 2012 to promote full, effective and consistent implementation of IOSCO principles and standards across its membership.

The Assessment Committee provided an update to the IOSCO Board of its forward work program of Thematic Reviews (across IOSCO's membership) on the regulation of derivative market intermediaries; the timeliness and frequency of disclosures to investors and implementation of Principles for Financial Benchmarks. The Committee also welcomed the G20 Leaders' support for Peer Reviews on Securitization and Money Market Funds scheduled for 2014.

The Board also considered progress by the Assessment Committee in discussions with the first candidates for Country Reviews. The Board also heard updates on the Assessment Committee's important work on developing a Framework for updating and supporting the *IOSCO Objectives and Principles of Securities Regulation* and the *Assessment Methodology*.

Emerging and Systemic Risk Identification

The Board agreed to shortly publish the **IOSCO Risk Outlook** prepared by the Committee on Emerging Risks and the IOSCO Research Department. The document, which will be published annually, is an essential element in IOSCO's ongoing effort to identify and assess potential systemic risks in securities markets. The Board agreed the online version of the Risk Outlook should be updated regularly.

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The Board also agreed with the need to to develop guidance on the regulation of crowd funding, identified through a number of meetings as an important emerging innovation .

Investor Education and Financial Literacy

The Board noted that work had commenced on developing a strategic framework to guide IOSCO's investor education and financial literacy agenda going forward. This work is being co-lead by Howard Wetston, IOSCO Vice-Chair and Leonardo Gomes, Chair of Brazil CVM

Task Force on Cross-Border Regulation

The IOSCO Task Force on Cross-Border Regulation held its first meeting on Monday. Created in June, the task force will carry out a survey this year aimed at taking stock of how regulators deal with cross-border issues. It aims to issue a Consultation Paper and hold industry round tables in the first quarter of 2014.

Engagement

The Annual Conference underscored IOSCO's commitment to engaging stakeholders and the broader IOSCO membership, in order to gain a better understanding of their needs and the challenges they face.

Industry Round Table on Emerging Risks: Cybercrime

The IOSCO Board meeting was preceded by a Round Table on cybercrime and financial markets. The Board and five external experts drawn from industry, think tanks and government agencies discussed how regulators could respond to the growing risk of cybercrime as a disruptive force in global financial markets. Participants agreed that cybercrime can have a serious impact on the integrity and efficiency of global markets, the protection of investors and ultimately on trust and confidence in the financial system, thereby posing a systemic risk. Members agreed on the importance of focusing on identifying

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where the biggest vulnerabilities are in financial markets and what practical mitigation measures might be possible.

Growth and Emerging Markets Committee

The Growth and Emerging Markets (GEM) Committee, the largest Committee within IOSCO representing 75 per cent of the IOSCO membership, endorsed the Strategic Direction of GEM at its meeting in Luxembourg. The new Strategic Direction focuses on strengthening policy and development issues on emerging markets, enhancing regulatory capacity building and providing a more substantial focus on the escalation of issues to global regulatory discussions, including the G-20 and Financial Stability Board.

Ranjit Ajit Singh, the GEM Committee Chair and the IOSCO Board Vice Chair said: *“The repositioning of the GEM Committee occurs at a crucial juncture in the context of the evolving global financial landscape and reinforces IOSCO’s position as a global reference body for securities regulation, including for emerging markets.”*

The GEM Committee also discussed current market conditions affecting several emerging markets. The Committee recognized the importance of the continuing efforts in strengthening and deepening capital markets that have played a role in enabling emerging markets to demonstrate greater resilience in volatile market conditions.

Ranjit Ajit Singh said: *“Emerging markets must not waiver from the path of strengthening and continue to press on with structural reforms to build a robust foundation for sound capital markets to meet increasing needs for market-based financing. They must continue to be committed to the development of institutions, such as a strong regulatory and enforcement framework, high corporate governance standards, and institutional investors such as pension and provident funds”* in his remarks made at the plenary session of the IOSCO Annual Conference.

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The Affiliate Members Consultative Group

The Affiliate Members Consultative Group (AMCC), formerly known as the Self-Regulatory Organizations Consultative Committee, met to discuss how to deepen its engagement with the broader IOSCO membership. The AMCC, with members from more than 40 jurisdictions, is making an increasingly important contribution to IOSCO's policy work and efforts to identify emerging risks.

Changes to Board Composition

IOSCO's Presidents Committee Wednesday approved a proposal to increase the number of Board members by two to 34 members and change some membership criteria. The move is aimed at providing the Board with a more balanced regional representation.

On the composition of the Board, Mr. Medcraft said: *We believe this structure is optimal. It will increase the representation of our emerging markets members while also ensuring that 80 per cent of world markets are represented and ensuring we maintain regional balance.*

New IOSCO Members

The Board approved The Institut Nacional Andorrà de Finances (INAF) of Andorra as an ordinary member of IOSCO and the German Derivatives Association (DDV) as an affiliate member. Another six applications for ordinary membership are currently being processed. Since the last Annual Conference in May 2012, seven other applicants were accepted for membership. They include:

- Financial and Capital Market Commission of Latvia (FCMC) – ordinary member
- Qatar Financial Market Authority (QFMA) – ordinary member
- Financial Planning Standards Board Ltd. (FPSB) – affiliate member

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- ICI Global – affiliate member
- Union of Arab Securities Authorities (UASA) – affiliate member
- Johannesburg Stock Exchange (JSE) – affiliate member
- Nigerian Stock Exchange (NSE) – affiliate member

Cooperation

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

Graduated Measures to promote member compliance with the MMoU

IOSCO on Wednesday adopted new measures to encourage non-signatory members to sign the IOSCO Multilateral Memorandum of Understanding on cooperation and exchange of information. Established in 2002, the MMoU is the instrument used by securities regulators around the world to fight the cross-border fraud and financial services misconduct that can weaken global markets and undermine investor confidence.

The Presidents' Committee approved a resolution that calls for gradually restricting opportunities of non-signatory members to influence key IOSCO non-signatory members due to the limited support they can provide IOSCO's enforcement efforts. The resolution also seeks to encourage national governments and parliaments to adopt the measures that support securities commissions in their efforts to comply with the MMoU.

Two new jurisdictions became signatories to the MMoU during a special signing ceremony on Wednesday: The Institut Nacional Andorrà de Finances of Andorra, whose IOSCO membership application was approved the day before, and the State Securities Commission of Vietnam. Another 23 non-signatory members are currently listed on Appendix B of the MMoU, the list of members who have

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formally expressed their commitment to seek the legislative and administrative changes necessary for achieving the MMoU compliance.

Gerard Rameix Chair of the French AMF was elected Chair of the MMoU Monitoring Group.

The IOSCO Capacity Building and Foundation

The Board approved the creation of a Capacity Building Resource Committee under the leadership of the Board Chair Greg Medcraft and Vice-Chairs, Howard Wetston and Ranjit Singh.

The new committee is tasked with developing a proposal for a new Capacity Building Development Fund sourcing financial donations from the public and philanthropic organizations aimed at addressing IOSCO's work in meeting the capacity building needs of emerging market jurisdictions. In addition to the fund, the committee will progress establishing the IOSCO Foundation in the medium term and developing proposals to direct private sector donations directly to its members.

Joint Book launch on Islamic Capital Market Products

IOSCO and Islamic Financial Services Board presented the book *Disclosure Requirements for Islamic Capital Market Products*, which is based on the discussions of a Joint IOSCO-IFSB Roundtable held in Kuala Lumpur in September 2012.

The book discusses the need for international regulatory standards and best practices relating to disclosure requirements for Islamic Capital Market (ICM) products. It analyzes the issues, risks and challenges arising from inadequate disclosure in the area of Sukūk and Islamic Collective Investment Schemes, and seeks ways to strengthen disclosure standards in relation to ICM instruments.

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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. 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.
3. 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,

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Romania, Singapore, South Africa, Spain, Switzerland, Trinidad and Tobago, Turkey, United Kingdom and the United States.

4. The Growth and Emerging Markets Committee is the largest Committee within IOSCO representing 75 per cent of the IOSCO membership. Mr. Ranjit Ajit Singh, Chairman, Securities Commission, Malaysia, and Vice Chair of the IOSCO Board, is the Chair of the GEM. The Committee endeavors to promote the development and greater efficiency of emerging securities and futures markets by establishing principles and minimum standards, providing training programs and technical assistance for members and facilitating the exchange of information and transfer of technology and expertise.

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