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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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IOSCO Report Compares, Analyses Prudential Standards in the Securities Sector

The International Organization of Securities Commissions (IOSCO) published today the consultation report *A Comparison and Analysis of Prudential Standards in the Securities Sector*, which undertakes a high level comparative analysis of the key prudential/capital frameworks for securities firms.

The report seeks to highlight similarities, differences and gaps among the different frameworks. IOSCO´s objective is to update its 1989 Report on *Capital Adequacy Standards for Securities Firms* (Capital Standards Report), based on the issues identified in the consultation report published today.

The report´s comparative analysis focuses on the Net Capital rule (NCR) approach, in particular the US approaches, and the Capital Requirements Directive (CRD), which is founded on the Basel Committee approach. While focusing on those two main prudential frameworks, the report also recognises relevant national variations.

As stated in the 1989 IOSCO Capital Adequacy Report, "*capital adequacy standards foster confidence in the financial markets and should be designed to achieve an environment in which a securities firm could wind down its business without losses to its customers or the customers of other broker-dealers and without disrupting the orderly functioning of the financial markets. Capital standards should be designed to provide supervisory authorities with time to intervene to accomplish this objective. They should allow a firm to absorb losses. They also should provide a reasonable, yet finite, limitation on excessive expansion by securities firms to minimize the possibility of customer losses and disruption of the markets.*"

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Many of the key themes identified in the consultation report are already reflected in the existing IOSCO capital adequacy standards report, such as the need for minimum capital requirements that reflect the type of business being conducted by securities firms and for risk-based capital requirements.

The report highlights prudential regulatory and supervisory areas that might be considered in any update of the 1989 Capital Standards Report, particularly:

- to identify opportunities for regulatory capital arbitrage that might (or actually have) materialised from differences in prudential regulations across jurisdictions;
- to account for the increasing use of internal models and the commensurate increase in infrastructure, systems and controls that are necessary to help ensure that firms are not undercapitalized compared to the risks posed by their positions and activities.

The report also includes three questions on which IOSCO is seeking public comments:

i. Does the report cover all of the key issues on prudential standards in the securities sector? If the answer is no, please explain what other issues should be covered.

ii. A primary aim of this report was to undertake a comparative analysis of the key prudential/capital standards for securities firm. Does the report identify and analyse the main similarities, differences and gaps between different prudential frameworks?

iii. In light of the findings in this report, which areas of the 1989 document, if any, do you believe should be updated and/or amended?

Comments should be submitted on or before 10 June.

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

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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 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, Saudi Arabia, Singapore, South Africa, Spain, Switzerland, Trinidad and Tobago, United Kingdom and the United States.

3. 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.

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. 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.

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