

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

IOSCO/MR/43/2015

Madrid, 10 November 2015

IOSCO Publishes final report on Standards for the Custody of CIS Assets

The Board of the International Organization of Securities Commissions (IOSCO) today published its final report on [Standards for the Custody of Collective Investment Schemes' Assets](#) (CIS Assets).

The report seeks to clarify, modernize and further develop international guidance for the custody of CIS assets consistent with IOSCO's core *Objectives and Principles of Securities Regulation, June 2010* (IOSCO Principles).

It sets out eight standards divided into two sections aimed at identifying the core issues that should be kept under review by the regulatory framework to ensure investors' assets are effectively protected. The first section focuses on key aspects relating to the custody function. It reaffirms the importance for the regulatory framework to provide for suitable custodial arrangements to be in place, clear segregation requirements and appropriate independence. The second part of the report is dedicated to standards relating more specifically to the appointment and ongoing monitoring of custodians.

The report identifies some of the key risks associated with the custody of CIS assets, such as operational risk, misuse of CIS assets, risk of fraud or theft, and information technology risk. A number of market developments in recent years prompted IOSCO to revisit its paper on *Guidance on Custody Arrangements for Collective Investment Schemes*, published in 1996. These developments include:

- Events like the Lehman Brother and MF Global insolvencies or the Madoff fraud, which focused attention on CIS asset regimes.

MEDIA RELEASE



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organizaç o Internacional das Comiss es de Valores
Organizaci n Internacional de Comisiones de Valores

- A tendency by CIS managers to invest more in complex instruments today than they did in the 1990s.
- The widespread use of electronic book entry to register and keep track of ownership changes in securities, which has led to a major change in market practices and processes, creating new challenges and risks.
- Evidence that CIS managers are also becoming more active in making CIS assets “work” for their clients.
- An increase in the diversification and internationalization of CIS portfolios since 1996, which has given rise to new cross-border challenges.

Standards for the Custody of Collective Investment Scheme Assets

- Standard 1: The regulatory regime should make appropriate provision for the custodial arrangements of the CIS.
- Standard 2: CIS assets should be segregated from:
- the assets of the responsible entity and its related entities;
 - the assets of the custodian / sub-custodian throughout the custody chain; and
 - the assets of other schemes and other clients of the custodian throughout the custody chain (unless CIS assets are held in a permissible omnibus account).
- Standard 3: CIS assets should be entrusted to a third party custodian that is functionally independent from the responsible entity.
- Standard 4: The responsible entity should seek to ensure that the custody arrangements in place are disclosed appropriately to investors in the CIS offering documents or otherwise made transparent to investors.

MEDIA RELEASE



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organizaç o Internacional das Comiss es de Valores
Organizaci n Internacional de Comisiones de Valores

- Standard 5: The responsible entity should use appropriate care, skill and diligence when appointing a custodian.
- Standard 6: The responsible entity should at a minimum, consider a custodian's legal / regulatory status, financial resources and organisational capabilities during the due diligence process.
- Standard 7: The responsible entity should formally document its relationship with the custodian and the agreement should seek to include provisions about the scope of the custodian's responsibility and liability.
- Standard 8: Custody arrangements should be monitored on an ongoing basis for compliance with the terms of the custody agreement.

NOTES TO THE 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). The Board is made up of 34 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 Australia, Belgium, Brazil, China, Egypt, France, Germany, Greece, Hong Kong, India, Italy, Japan, Kenya, Korea, Malaysia, Mexico, the Netherlands, Nigeria, Ontario, Pakistan, Peru, Quebec, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Thailand, Trinidad and Tobago, Turkey, United Kingdom and the United States.

MEDIA RELEASE



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organizaç o Internacional das Comiss es de Valores
Organizaci n Internacional de Comisiones de Valores

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.

MEDIA ENQUIRIES

Carlta Vitzthum
Outside office hours
Email:
Website:
Follow IOSCO on Twitter

+ 34 91 787 0419
+ 34 697 449 639
carlta@iosco.org
www.iosco.org
@IOSCOPress