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IOSCO Publishes the Securities Markets Risk Outlook 2016

The International Organization of Securities Commissions (IOSCO) today published the IOSCO *Securities Markets Risk Outlook 2016*, which identifies and examines key trends in global financial markets and the potential risks to financial stability.

The Outlook is a forward-looking report focusing specifically on issues relevant to securities markets and on whether these may be, or could become, a threat to the global financial system. For this edition of the Outlook, the scope goes beyond financial stability to also include IOSCO's two other key objectives: investor protection and market efficiency.

The report highlights the importance that IOSCO attaches to pre-emptive work on analyzing and detecting emerging risks in securities markets, which are playing an increasingly bigger role in financing the global economy

The analysis in this Outlook has benefited from the growing availability of data on securities markets, although data gaps still exist. It also has drawn on the comprehensive inputs from experts in the markets, the academic world and the regulatory community, through interviews, research reports and an IOSCO survey conducted in March/April 2015. Finally, the Outlook builds on and complements the risk identification work of other global organizations, such as the Financial Stability Board and the International Monetary Fund.

The Outlook first examines key trends in global financial markets and their impact on securities markets. It focuses on:

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- The impact on securities markets from interventions of central banks worldwide;
- The impact on securities markets from falling commodity prices and uncertainty over global growth trends;
- General growth trends in corporate bond, equity and securitized product markets;
- Recent trends in emerging market securities markets related to leverage, capital flows, and market-based financing;
- The increasing digitalization of financial markets and potential for technological disruptors.

The Outlook also identifies and examines, in depth, four potential risk areas:

1. *Corporate bond market liquidity:*

The expansion in corporate bond primary markets has raised some concern about whether the secondary market structure will withstand periods of market stress going forward. The outcome of the analysis of the available data is nuanced and further data gathering should shed more light.

2. *Risks associated with the use of collateral in financial transactions:*

Collateral is playing a growing role in financial markets. Services such as collateral optimization, collateral transformation, collateral arbitrage, re-hypothecation and reuse will continue to increase. These collateral management activities may have inherent risk transfer as part of their make-up, lead to greater market interconnections, have greater asset encumbrance (in some circumstances) and may create the potential of risk concentration in those participants that provide such services.

3. *Harmful conduct in relation to retail financial products and services:*

Harmful conduct in retail financial products and services can appear in many different forms. A frequently cited case involves the mis-selling of unit-linked products and structured retail products. These products are inherently complex and many investors and advisers fail to

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understand them sufficiently. High commissions on these sales also can drive investment advisers to “push” these products, to the detriment of some investor classes.

4. *Cyber threats*

In securities markets, cyber threats have increased in frequency, sophistication, and complexity over the past few years, and have become a systemic risk. Securities markets regulators around the world are focusing on mitigating cyber risks and increasing the cyber resilience of financial systems.

The risks addressed in last year’s Outlook -- search for yield, capital flows to emerging markets, central clearing, use of collateral, and governance and culture of financial firms – remain on IOSCO’s long list of risks. They continue to be monitored and are being addressed by IOSCO policy work

This Outlook also discusses the issues around the asset management industry, in light of the current debate over the systemic importance of this industry and the regulatory work underway. To enhance the understanding of the fund industry, there is a need for further work to which IOSCO and its members are actively contributing.

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.

The IOSCO Board is the governing and standard-setting body of the International Organization of Securities Commissions (IOSCO), and 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.

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2. 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.
3. 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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