Global Regulatory Change, Securities Markets and Systemic Risk

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Disclaimer

The views and opinions presented in this presentation are those of the presenter only and do not necessarily reflect the views and opinions of IOSCO or its individual members.

Structure

- **Part 1:** IOSCO
- **Part 2:** The regulatory landscape
- **Part 3:** Systemic risk identification and structured retail products

Part I: IOSCO

What is IOSCO? (1)

- **International Standard setter for Securities markets.**
- **Consists of world's securities and futures market regulators.**
- **It spans over 120 jurisdictions and regulates more than 95% of the world's securities markets.**

What is IOSCO? (2)

The main objectives:

- *Cooperate* to promote high standards or regulation.
- *Exchange information* on respective experiences.
- *Unite efforts to establish standards* and an effective surveillance of international securities transactions.
- *Provide mutual assistance* to promote the integrity of the markets.
- *Identify and manage* systemic risk.

What is IOSCO? (3)

- **Committee 1**, which focuses on accounting, auditing and corporate disclosures;
- **Committee 2**, which focuses on the regulation of stock exchanges (secondary markets);
- **Committee 3**, which focuses on the regulation of market intermediaries such as broker-dealers, investment banks, etc.;
- **Committee 4**, which focuses on cross-border securities law enforcement matters;
- **Committee 5**, which focuses on the regulation of mutual funds and other “collective investment schemes” and
- **Committee 6**, dealing with credit rating agencies.
- **Committee 7**, dealing with commodity futures

What is IOSCO? (4)

- **Research at IOSCO**
- **A research function consisting of:**
  - **A Standing Committee on Risk and Research (SCRR); and**
  - **An independent Research Department.**

Part II: The Regulatory Landscape

IOSCO's place in the global regulatory reform agenda

G20 Leadership

- Connection to political process
- Global credibility

IOSCO

- Securities markets regulation

Other Standard Setters

- Banking
- Insurance
- Payments and Clearing

FSB

- Financial stability
- Coordination

IMF and World Bank

- Global macro-economic focus
- Implementation of standards and peer reviews

Regulatory trends

- **Numerous regulations, stricter regulatory regimes.**
- **Focus on addressing systemic risk and financial stability**
- **Emphasis on market surveillance**
- **Calls for transparency and disclosure**
- **Stricter capital requirement rules on credit institutions (Basel I, II etc.; Financial Market Infrastructures (CPSS/IOSCO Standards, Margin requirements for financial market infrastructures); new rules for derivatives traders and clearers (CCPs, collateral etc.)**

What does this mean for securities markets?

- **Increasing role of securites markets in financing the global economy.**
- **Increased reliance on shadow-banking sector and market-based finance e.g. SRPs, ETFs and MMFs.**
- **Doors of emerging markets are opening to these types of products.**
- **At the same time:**
  - renewed pressure for stricter disclosure and transparency
  - Focus on systemic risk identification and monitoring, market-based finance products under increased scrutiny.

Part III: Systemic risk identification and structured retail products.

Systemic risk identification system

- No concrete methodology for identifying, monitoring or assessing systemic risk for securities regulators.

- Data gaps also an issue.

- Research Department’s system will therefore:
  - Provide a standardized and comprehensive approach across jurisdictions
  - Guide data collection.

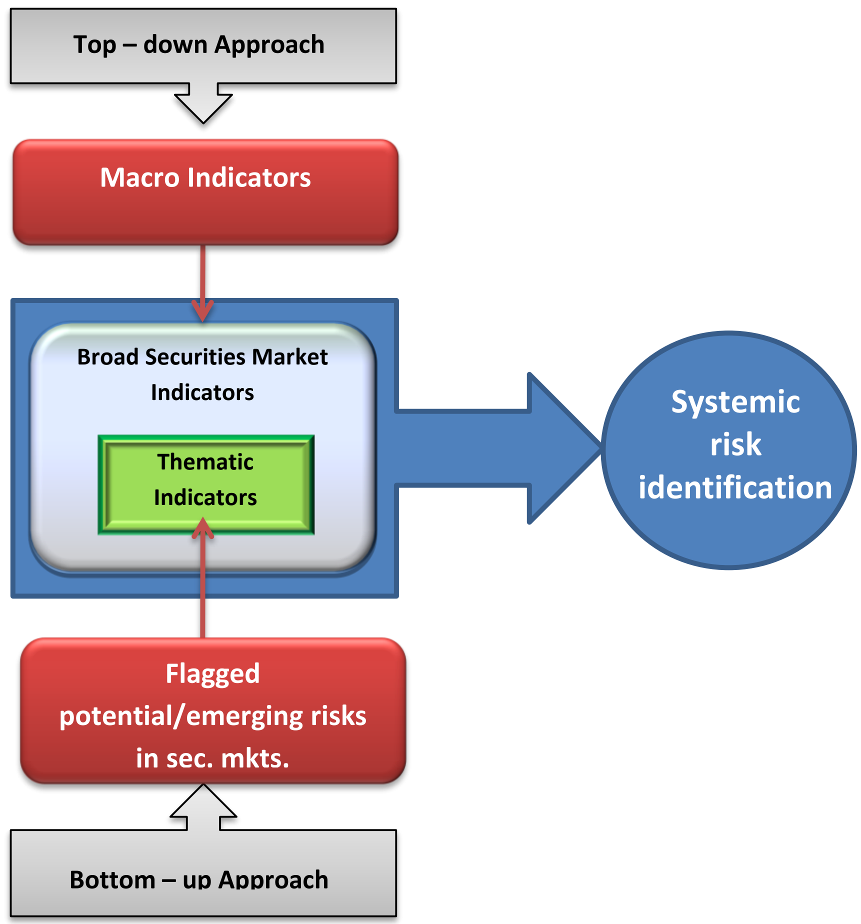
Five elements of the System

1. **Multi-level indicators** – macro, micro and thematic
2. **Systemic Risk Factors** – to distinguish *systemic* risk and guide the development/use of indicators
3. **A two-sided approach** – top-down and bottom-up to ensure external and internal risk factors are taken into account.
4. **Adaptability** – indicators in the system can be applied meaningfully to different jurisdictions with different systemic risk concerns.
5. **Flexibility** – to allow the system to evolve as data is gathered and new risks emerge.

Systemic Risk Factors

• Size • Liquidity • Cross-Jurisdictional • Transparency • Interconnectedness • Substitutability and Institution structure • Market Integrity and efficiency	• Concentration • Behaviour • Incentive Structure • Leverage • Regulation • Complexity

Top-down and bottom-up



Example using SRPs

- **Systemic risk factors are**
  - Size,
  - Complexity
  - Incentive structure
  - Transparency
  - Concentration
  - Interconnectedness
  - Liquidity
  - Market efficiency.

Data gaps?

Conclusion

- Feedback? Thoughts? Questions?