



**OICU-IOSCO**

# Systemic Risk Research A Practical Approach

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# Outline

## Research Department & Systemic Risk

I. Introduction

II. Strategy

III. Action

IV. IOSCO Research Department



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# Introduction

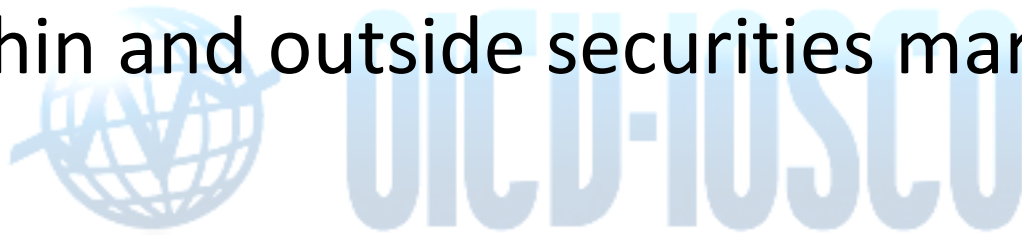
## **Systemic Risk:**

A risk to the securities markets that ultimately impacts the real economy.

# Introduction (2)

**Where does systemic risk arise?**

From within and outside securities markets.



# Introduction (3)

## New IOSCO Principles:

### Principle 6:

The Regulator should have or contribute to a process to ***monitor, mitigate and manage systemic risk***, appropriate to its mandate.

Principle 7: The Regulator should have or contribute to a process ***to review the perimeter of regulation*** regularly.

# Introduction (4)

## IOSCO Principle 6:

### Key Issues

- The regulator should have or contribute to regulatory processes, which may be cross-sectoral, to monitor, mitigate and appropriately manage systemic risk. The process can vary with the complexity of the market.
- Given the central role of markets in the overall financial system and their capability to generate and/or transmit risks, securities regulators should work with other supervisors to improve the overall understanding of the economics of the securities markets, their vulnerabilities and the interconnections with the broader financial sector and the real economy.
- The regulator should have or develop systems and processes to permit the sharing of information and knowledge as an essential component for the delivery of an effective regulatory response to systemic risk.

# Introduction (5)

## IOSCO Principle 7:

### Key Issues

1. The regulator should:
  - a) adopt or adapt its own process, or participate in a process with other regulators and/or government policy-makers, for conducting a regular review of products, markets, market participants and activities so as to identify and assess possible risks to investor protection and market fairness, efficiency and transparency or other risks to the financial system; and
  - b) regularly review the perimeter of regulation in order to promote the identification and assessment of these risks.
2. Such review should include consideration of:
  - a) whether developments in products, markets, market participants and activities have an effect on the scope of securities regulation; and
  - b) whether the policy approach underlying the existing statutory or discretionary exemptions, continues to be valid.
3. The process should focus on determining whether the regulator's existing powers, operational structure, and regulations are sufficient to meet emerging risks.
4. The process should also allow for any changes to the existing perimeter of regulation to be made in a timely manner in response to an identified emerging risk. Such a necessary change may include the regulator seeking changes to legislation.



# Introduction (6)

**How to comply  
with IOSCO  
Principle 6 &  
7?**

**How to get my  
organization  
focused on  
systemic risks?**

**How to create a  
research  
function?**

**How to get the  
right people?**



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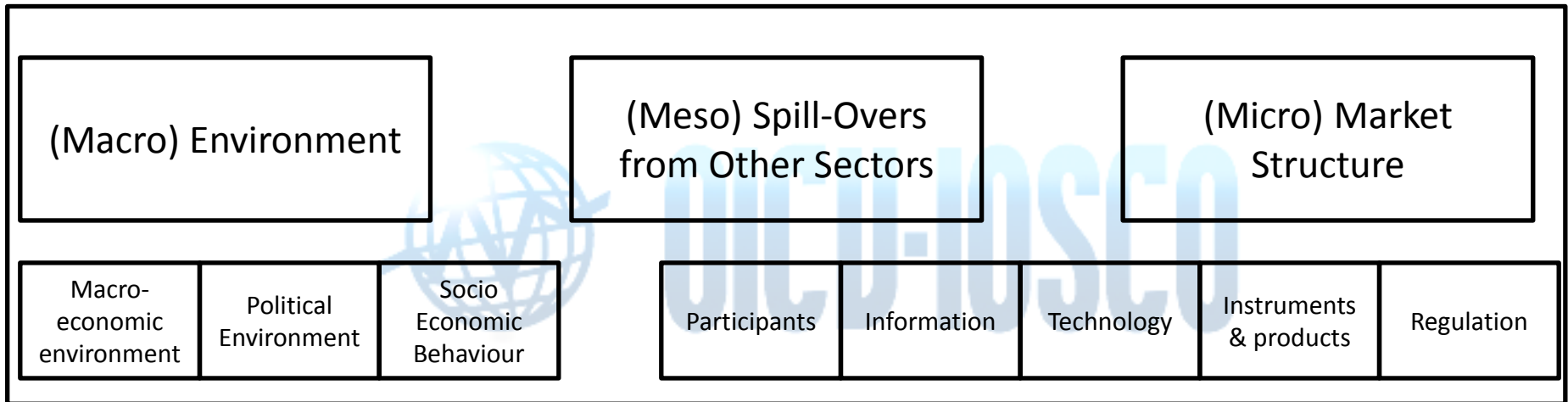
# Strategy

## **The functions of a research department:**

- Should signal timely big risks
- Should provide practical ideas for solutions
- Should help targeting the strategic and current course of supervisory and policy agendas

# Strategy (2)

Where to look at?



Research and analysis lead to tangible research reports with options, solutions and mitigating actions.

# Strategy (3)

Focus decision making on the main risks:

- Get the supervisory and policy agendas of the board of the regulator focused on the main risks. The board should adopt and plan actions on the main risks highlighted in the risk outlook.

# Strategy (4)

Launch action on the main risks:

- Design supervisory and policy projects on the main risks. The board should monitor these projects closely.

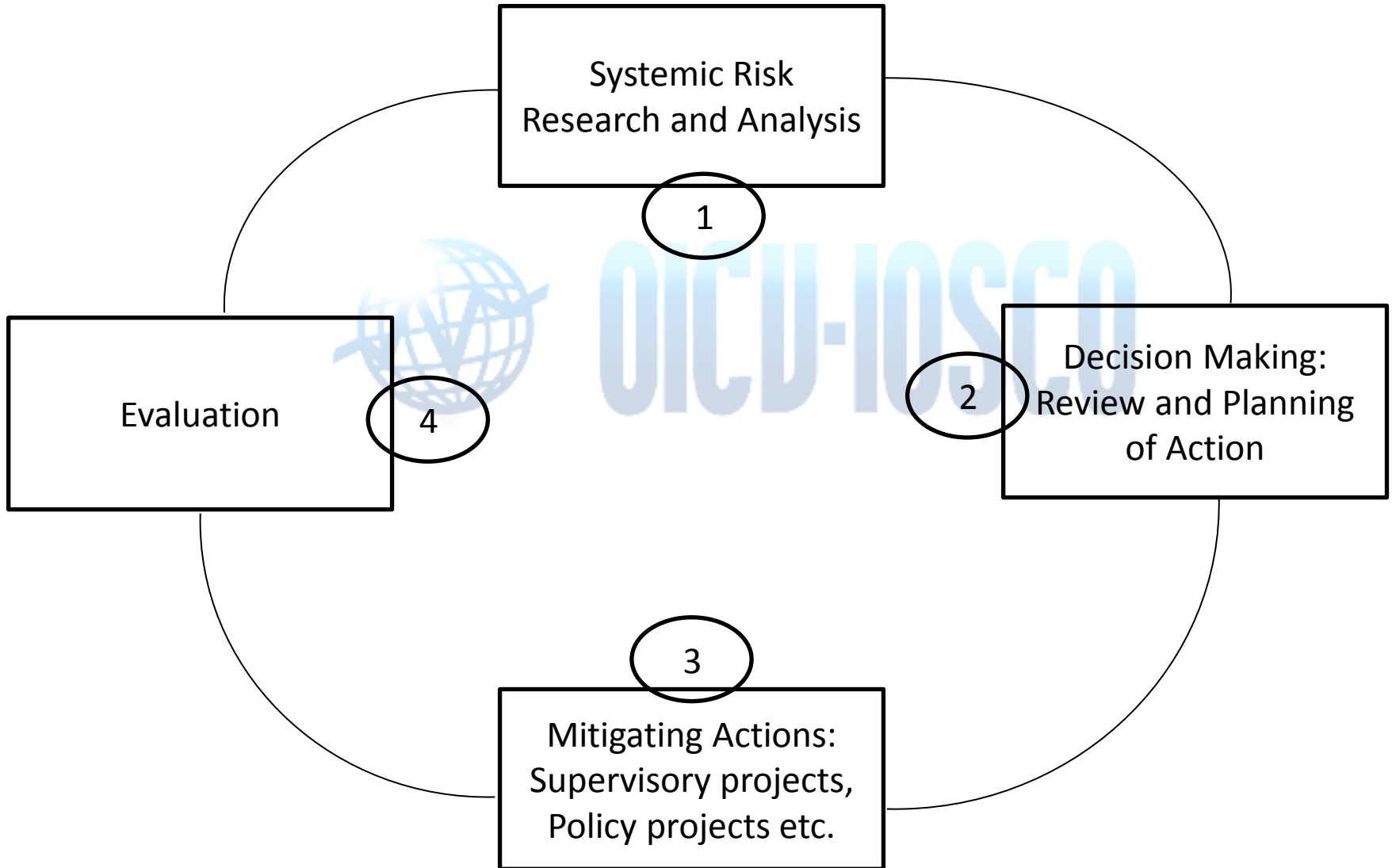
# Strategy (5)

Evaluation:

Control if all research and actions have lead to mitigating risks and improvement of financial stability. This can be measured by:

1. Stability
2. Integrity
3. Efficiency
4. Diversification

# Strategy (6)





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# Action

## Building a successful research department

1. Plan
2. People
3. Activities



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# Action (2)

## 1. Plan

### **How to influence the supervisory and policy agenda?**

- Strategy and reports should be endorsed by the board
- Forward looking reports with concise analysis of big risks, with options for concrete solutions. Key words: High quality, multidisciplinary, perimeter of regulation.
- Reports should have support of internal and external stakeholders

# Action (3)

## 1. Plan

### How to get information and data?

- Plain data analysis
  - Publicly available data
  - Shared work with other researchers and stakeholders
- Intelligence system
  - Use the brains and experience inside your organization:
    - Internal experts
  - Go out and get fresh views:
    - Interview experts from the markets
    - Look into market operations
    - Interview experts from the academic world
    - Use experts from IOSCO

# Action (4)

## 2. People

### What kind of people should a research department have?

1. **A leader** with energy, able to think ahead, get people on board and people management skills
2. **Team of Generalists** with a combination of highly developed:
  - Analytic skills
  - Writing skills
  - Consultancy skills
  - Outgoing
  - Creativity
  - High energy
  - Economic skills
  - Econometric skills

# Action (5)

## 2. People

**Is there an ideal size for a research department?**

As a rule:

A research department should be big enough to tackle the important issues, and small enough to not take up daily, non strategic, non systemic issues

# Action (6)

## 3. Activities

Production of relevant and timely risk reports that offer options for monitoring and mitigation of the systemic risks.

These reports could be:

1. Long term scenarios (strategy planning)
2. Annual Risk Outlook (year planning of risk based policy and supervision)
3. Exploratory Analysis on single risk topics (in-depth analysis)
4. Ad-hoc and data analyses

# Action (7)

## 3. Activities

What a research department shouldn't do:

1. Write reports on Economic activity of a country (see *the Economist*)
2. Write reports on Trading activities and stock exchange prices (see *local financial newspaper*)
3. Build data bases (*the statistics department*)
4. Develop policies (*the policy department*)
5. Execute supervision (*the supervisory teams*)



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# IOSCO Research Department

## The strategy for the launch of the Research Department

Part of Strategic Direction of IOSCO (2010-2015):

- Mentioned in the new Mission and Goals;
- A separate paper describing the creation of the research function; and
- Additional budget dedicated to research.

All members got the chance to comment and discuss twice. After this they were asked to approve this.

# IOSCO Research Department (2)

## The actions taken for the launch of the Research Department

- Kick off: the hire of a few experienced people
- Developing a business plan to buy in TC/EC/EMCAB and audit committee
- Give presentations to stakeholders
- Start physical production (3 reports since Feb 2011)
- Concentration on major product: IOSCO Risk Outlook
- Soon to add junior staff/secondees

# IOSCO Research Department (3)

## **The actions taken for the launch of the main product of the Research Department**

We asked in an early stage approval for the Annual IOSCO Risk Outlook, in TC/EC/EMCAB meetings:

- ✓ The external network is there ***“to provide insights and views on key risks for the Global Securities Regulation Risk Outlook”*** (Chennai TC/EC/EMCAB report of the RU) and
- ✓ ***“The risks identification and selection in the Outlook will be based on expert views (SC + external)”*** (Rio presentation to TC/EC/EMCAB)

# IOSCO Research Department (4)

## The actions to produce the IOSCO Risk Outlook

1. Identifying the top risks
2. Research Unit's analysis of these risks
3. Circulate for comments and input
  - a) Internal: SCRR and EC/TC/SC/TF/WG
  - b) External: Research Network
4. Publication in May 2012 at the next IOSCO Annual Conference in Beijing

# IOSCO Research Department (5)

## The actions to produce the IOSCO Risk Outlook

What are the key risks impacting the securities markets for the near future?

1. Presentation of Victor Mendes (CMVM)
2. Interactive presentation on the Online Survey of the Research Department