



Report from the Chair of the SRO Consultative Committee

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The SRO Consultative Committee (SROCC) was established in 1989 as IOSCO's consultative body of self-regulatory organizations (SROs). Since its inauguration, the SROCC has provided an indispensable framework for SROs to share information on their individual regulatory activities and experiences, thereby helping to strengthen the underpinnings of capital markets around the globe. The SROCC has become an integral part of the global regulatory community responsible for securities regulation and fair market practices.

The SROCC consists of 71 members representing developed and emerging securities and derivatives markets from around the world. The committee membership now comprises 18 regulatory organizations, 43 exchanges (including the WFE), five clearing and settlement agencies, and five investor protection funds. During the period between the Annual Conference in Cape Town and the Annual Conference in Beijing, the SROCC welcomed four new members.

The SROCC is made up of regulators and standard-setters close to the market. It cooperates, supports and coordinates with IOSCO's other committees and their members, in order to:

- > enhance the effectiveness and value of self-regulation in promoting efficiency, transparency and integrity of markets;
- > contribute to regulatory policy development and implementation through the expertise and input provided by its members and related parties;
- > identify potential investor protection and market integrity issues and proactively address emerging trends;
- > effectively address the wide range of issues in securities markets for the benefit of the regulatory community and investors globally; and
- > share experiences as SROs with other members and interested parties through seminars and training programs.

SROs' Roles and Functions

As global regulatory reform initiatives developed in response to the 2008 financial crisis move into the implementation phase, self-regulatory organizations (SROs) are playing an important role. This role and the responsibilities assumed by SROs are recognized in IOSCO's Objectives and Principles of Securities Regulation, as well as in the Methodology for Assessing Implementation of the IOSCO Objectives and Principles of Securities Regulation. SROs enhance regulatory resources, which includes establishing and enforcing rules and codes of conduct, developing standard documentation and best practices, and taking disciplinary action for non-compliance. SROs also offer unique expertise on market operations and practices and in the area of arbitration and dispute resolution, all of which have become focal points for investors and regulators in the wake of the recent market turmoil.

If SROs are properly authorized, empowered and overseen, they have numerous advantages. Based on their proximity to the market, SROs have expertise regarding market operations and practices that enables them to respond quickly and in a flexible manner to changing market conditions. They can establish ethical standards and require data collection beyond government regulations. Importantly, SROs can also reduce the taxpayers' regulatory cost burden. Taking advantage of these strengths, SROs around the world are contributing to investor protection and increasing market integrity.

Recent meetings and activities

During the period between April 2011 and May 2012, the SROCC held three meetings: the annual meeting during the IOSCO Annual Conference in Cape Town in April 2011, the mid-year meeting in Taipei in November 2011, and the annual meeting during the IOSCO Annual Conference in Beijing in May 2012. A training seminar for the regulatory staff of the SROCC member organizations and the emerging markets regulators was held in tandem with its mid-year meeting in Taipei, which was co-organized by the SROCC and the Emerging Markets Committee in collaboration with the Taiwan Stock Exchange. It was the SROCC's fourth such seminar, an increasingly important activity for the SROCC.

In addition to the above, I, as the SROCC Chair, and/or members attended and participated in a number of meetings organized by IOSCO's other committees, including the Technical Committee (TC)'s Standing

Committees, and the TC meeting with Financial Market Stakeholders. On these occasions, the SROCC representatives provided their perspectives, expertise and views on the critical regulatory issues being addressed by each Committee. The SROCC also provided its perspective on IOSCO's structural reform and membership issues.

Through its working groups, the SROCC has conducted many activities, including the following:

1) Early detection of regulatory issues

The regulatory role played by SROs is becoming increasingly important as a result of evolving market structures, the proliferation of complex products and more complicated business models of financial intermediaries. Their close proximity to the markets allows SROs to respond to these developments with speed and versatility. SROs are well positioned to detect emerging issues and early warning signs of regulatory concern.





In this context, the SROCC established the Ahead of the Curve Working Group (ATC-WG), as an important vehicle to detect potential regulatory issues at an early stage, share information on such emerging issues, and help SROs explore best solutions. During the recent meetings in Cape Town, Taipei and Beijing, the ATC-WG discussed a number of issues facing SROs, including:

- > market structure developments including high frequency trading, dark pools, market fee models, single stock circuit breakers, volatility controls, and guidance on stop loss orders,
- > investor protection matters including unfair trading related to public offerings, a suitability standard for the solicitation of complex financial products, the use of social networking services and business communications, phishing and other online identity scams, and alerts addressing such matters as non-traded REITS, hacking, and gold stock scams,
- > regulatory framework developments including the implications of a number of regulatory changes and cooperation among regulatory organizations in each jurisdiction, and
- > corporate governance standards for listed companies.

The SROCC will continue to exchange information on emerging regulatory issues, enabling members to identify

and respond quickly to issues of concern, protecting investors and market integrity, and contributing to financial stability.

2) Training regulatory staff

Training regulatory staff is one of the highest priorities of the SROCC. Through training, members can ensure that regulatory SRO staff will be better able to identify emerging regulatory issues and address them effectively and efficiently. The Regulatory Staff Training Working Group of the SROCC (RST-WG) is committed to assisting the staff of all IOSCO members in enhancing understanding of fundamental regulatory requirements and related inspection practices.

Based on a review of the past three programs conducted in the US (December 2008), the UK (January 2010) and Brazil (November 2010), the fourth face-to-face training seminar took place in Taipei from 1 to 3 November 2011, with the support of the Taiwan Stock Exchange and three other SROCC members: ANBIMA, FINRA, and JSDA. As in the past, the project was co-organized by the Emerging Markets Committee. The seminar was attended by 106 participants (including speakers) from EMC and SROCC member organizations in 25 jurisdictions around the world. At the seminar, presentations were delivered by the speakers from regulatory authorities and SROs, including the IOSCO Secretariat, Brazil-AMBIMA, Brazil-BM&F BOVESPA, Brazil-BSM, Canada-The Investment Industry Regulatory Organization, Chinese-Taipei-TWSE, Egypt-EGX, Europe-



ICMA, Hong Kong-SFC, India-SEBI, Japan-JSDA, Japan-TSEG, Poland-KNF, Switzerland-SIX Swiss Exchange, Chinese Taipei-FSC, Turkey-TSPAKB, and US-FINRA.

Based on these presentations, the participants had extensive discussions on IOSCO Objectives and Principles, in particular, on Principles for Regulators, Principles for Issuers, Exempt Offerings and Other Securities, and Principles for Intermediaries. Following the established practice of past seminars, the participants joined breakout group sessions to gain a better understanding of the day's topics.

Considering the positive feedback on the training seminar, including its structure and subject matter, the SROCC reached a consensus to further continue this type of training activity and agreed to hold the next seminar in Istanbul, Turkey in November 2012.

Future Work Program

In the current context of rapidly changing global financial markets, SROs' front-line regulatory expertise is becoming increasingly important, while their role in strengthening investor protection, market integrity and financial stability is more widely recognized. By offering the perspective of regulators close to the market, the SROCC intends to work closely and actively with relevant IOSCO committees and task forces, and relevant market stakeholders, with the aim of contributing to the fulfillment of IOSCO Objectives and

Principles. The SROCC expanded its interaction with relevant Standing Committees and Taskforces in the past year: it continues to contribute vigorously to the on-going work of IOSCO, both as a group and as individual organizations. Also, the SROCC will explore education opportunities for staff of regulatory organizations.

In addition to identifying emerging trends and sharing its expertise, the SROCC will look for new ways to promote the exchange of information between members and government authorities on regulatory initiatives and will seek to expand its role in IOSCO policy-making as appropriate.

For the coming cycle of committee activities, the SROCC elected a new Chair at its annual meeting in Beijing in May 2012: Mr. Jose Carlos H. Doherty, Chief Regulatory Officer, Brazilian Association of Financial and Capital Markets Institutions (ANBIMA). Under the new Chair, the SROCC will hold its mid-year meeting and training seminar, the fifth in this exercise in Istanbul, Turkey in November 2012 and its annual meeting during the IOSCO Annual Conference in Luxembourg in September 2013.

In closing this report, let me thank my IOSCO colleagues and other stakeholders for the kind support and cooperation extended during my tenure. I am confident that the SROCC and its members will further enhance their activities under the leadership of the new Chair, Mr. Jose Carlos Doherty. I wish IOSCO and its SROCC further success in the years to come.