



# Annual Report 2011

INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS



# IOSCO MEMBERS' OBJECTIVES

- to cooperate in developing, implementing and promoting adherence to internationally recognised 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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## Report from the Chair of the Executive Committee

**Maria Helena Santana**

> Chair of the IOSCO Executive Committee and Chair of the Comissão de Valores Mobiliários (CVM) of Brazil

**In an ongoing effort to meet its strategic objectives, IOSCO has focused on strengthening its role as international standard setter for securities market regulation. The current financial crisis has underscored the importance of IOSCO's contribution to global regulatory reform and reinforced its commitment to confront the challenges ahead.**

As this is my last report as Chair of the Executive Committee, it provides me with an opportunity to reflect on where we have come from and where we may go.

During the year, IOSCO continued to implement the reform program launched in 2008. One of the most significant achievements was the approval of a revised methodology to assess the implementation of the Principles of Securities Regulation. This advance led to the creation of the Assessment Committee, which is entrusted with the task of seeking full and consistent implementation of the Principles by IOSCO members. Another accomplishment was the successful constitution of the new policy committees, with a membership that comprises both developed and emerging markets. Lastly, I would like to mention the consolidation of the Secretariat's Research Unit and the successful creation of the Standing Committee on Risk and Research – SCRR. Together they are producing work that will help regulators identify systemic risks within the markets.

### **MMoU progress**

IOSCO grew in stature over the year as more countries joined the *Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information* (IOSCO MMoU). In 2007, around 700 requests for assistance were made; by 2011, the number of requests had exceeded 2,000. At the IOSCO annual meeting in Beijing, the organization welcomed four new signatories: Egypt, Labuan, Mauritius and Peru. At the time of writing this, 86 members had been included in the agreement, out of 121 potential candidates, and more were expected to join.

Following the recent modification in the structure of IOSCO, the decision-making body for MMoU applications is now composed of the Chairs of the IOSCO Board, the Emerging Markets Committee and the MMoU's Monitoring Group. Together with the Screening Group and the MMoU team at the Secretariat, the decision-making body will continue to pursue the inclusion of all the members on the list of full signatories. To that end, IOSCO non-signatory members were asked to intensify their efforts throughout 2012 to become full signatories by 1 January 2013.

### **The Strategic Direction Task Force**

The Strategic Direction Task Force, composed of the Chairs and Vice-Chairs of the former Technical, Executive and Emerging Markets Committees, has been decisive at helping IOSCO to work towards its strategic objectives. In the run-up to the Annual Conference in Beijing, the Task Force worked primarily on the merger of the policy groups from the Technical and Emerging Market Committees, and on the reorganization of IOSCO members into three categories. The merger was successfully concluded, and the policy committees, now composed of both developed and less developed market regulators, continue to meet regularly. The newly established IOSCO Board will deal with the remaining issues related to membership.

By implementing its strategic direction for 2010-2015, as recommended by the Executive Committee and approved by the Presidents Committee in 2010, IOSCO will be positioned to respond faster and more effectively to the new challenges arising from a globally integrated securities market.



### **Assessment Committee**

The Assessment Committee, whose mandate was approved recently in Beijing, was structured to ensure full and consistent implementation of the Principles and Standards across the Organization's membership and to disseminate the best practices and approaches for meeting this goal. The Committee is tasked with performing both country and thematic reviews. Topics such as systemic risk and the perimeter of regulation will be covered by the first thematic reviews.

### **SCRR**

The Standing Committee on Risk and Research was set up last year as part of an effort to accomplish one of IOSCO's most important missions: monitoring and mitigating systemic risk. For this purpose IOSCO adopted a revised version of the IOSCO Principles that included two new principles dealing specifically with the role of securities regulators with respect to systemic risk and review of the regulatory perimeter.

Recently, a proposal was put forth to review the progress made on implementing these principles. The Assessment Committee will conduct this exercise in conjunction with the SCRR.

The SCRR has expressed interest in meeting with the private sector and academics to discuss issues regarding

emerging risks. Plans also exist to create an IOSCO Foundation with a strong governance structure and a mandate to gather additional resources for the Organization's technical assistance, education training, and research activities. These measures seek to reinforce IOSCO's capacity to provide effective solutions for systemic risk mitigation and management, a key challenge facing the Organization's members.

### **Farewell**

I would like to take this opportunity to thank the extremely talented people with whom I have had the pleasure to work. Perhaps one of the most sensitive issues during my term as Executive Committee Chair was the process to select the new Secretary General. In this regard, I would like to express my special appreciation to Masamichi Kono, Vedat Agkiray, Zarinah Anwar and Fernando Restoy for their invaluable assistance. Special thanks also go to Greg Tanzer, the outgoing Secretary General, for his competence and leadership during his tenure.

I would also like to welcome Secretary General David Wright, who at such a difficult moment is assuming the tremendously challenging task of leading the IOSCO Secretariat in the years ahead. I firmly believe that his skills, along with the commitment shown by our members, are major assets that will help IOSCO meet its goals and ensure its success in the future.



**Report from the Chair  
of the Technical Committee**  
From April 2011 to May 2012  
(Chair of the IOSCO Board since May 2012)

**Masamichi Kono**  
> Vice Commissioner for International Affairs,  
Financial Services Agency, Japan

The global financial crisis has revealed serious weaknesses in the financial system and the financial markets of the world. In particular, it has exposed major shortfalls in financial regulation and supervision, and questioned the ability of regulators and supervisors to effectively conduct and coordinate proper oversight of the financial system and ensure financial stability. In recent years, the G20 Leaders and the Financial Stability Board (FSB) have repeatedly requested that international regulatory bodies such as IOSCO undertake a comprehensive set of international financial regulatory reforms. IOSCO, as a global regulatory body consisting of securities regulators from 115 jurisdictions, has been entrusted with the task of leading the reform efforts in market regulation and oversight, with a view to rebuilding market confidence.



During my tenure as the Chair of the Technical Committee from April 2011 to May 2012, IOSCO worked hard to contribute to the global efforts at regulatory reform. While IOSCO's accomplishments are already substantial at this stage, more work needs to be done and in an increasingly challenging timeframe. In the text that follows, I would like to present a brief overview of the current G20/FSB related work at IOSCO. I would also like to take this opportunity to highlight the important challenges facing IOSCO and its work program. The newly constituted IOSCO Board, which I currently chair, will be taking the lead in meeting those challenges over the coming year and beyond.

## **1. IOSCO Work on G20/FSB-Related Topics**

### **A) OTC Derivatives Market Reform**

Regulatory reform of the OTC derivatives markets probably has been one of the most important areas of international financial regulatory reform since the start of the global financial crisis in 2007-2008. The G20 Leaders initiated a comprehensive reform program in 2009 that contained the necessary steps to mitigate the systemic risk

emanating from OTC derivatives trading and which set end-2012 as the target date for implementation of critical reforms.

One of the pillars of the bespoke reforms was a commitment by jurisdictions to mandate, where appropriate, trading of standardized OTC derivatives on exchanges or electronic trading platforms by end-2012. IOSCO was asked to provide an analysis of the associated costs and benefits of this reform measure. Accordingly, it published in February 2011 a report on *Trading of OTC Derivatives*, which concluded that it was indeed appropriate to trade standardized derivative contracts with a suitable degree of liquidity on organized trading platforms. The report also contained recommendations to facilitate the transition of standardized derivative transactions onto exchanges and electronic trading platforms, and suggested a range of possible regulatory actions for increasing derivative trading on such organized trading platforms.

The G20 reform program also included a commitment to have all standardized OTC derivatives trading cleared through central counterparties (CCPs) by end-2012. IOSCO published a report entitled *Requirements for Mandatory Clearing* in February 2012, which outlined recommendations to establish mandatory clearing regimes for standardized derivatives and for mitigating excessive counterparty credit risk. Separately, IOSCO and The Committee on Payment and Settlement Systems, at the Bank for International Settlements, (CPSS) published a report containing the *Principles for Financial Market Infrastructures* in April 2012. The objective of these comprehensive and extensive principles is to provide appropriate safeguards against systemic risk and thereby prevent contagion of financial crises through the strengthening of financial market infrastructures, including CCPs, which become systemically important under the central clearing mandate.

Further, the G20 commitment called for mandatory reporting of OTC derivative contracts to trade repositories (TRs). In response to the G20/FSB request to address this issue, IOSCO and the CPSS jointly published a report entitled *Report on OTC Derivatives Data Reporting and Aggregation Requirements* in January 2012. It specified minimum requirements for data reporting by traders to TRs and for the reporting by TRs to regulators. It also discussed such related issues as the types of acceptable data formats. By collecting such data centrally, TRs are able to provide information on OTC derivative markets that would help to promote financial stability, assist in the detection and prevention of market abuse, and enhance the transparency of information to relevant authorities and to the public. IOSCO is continuing work on the authorities' access to TR data, and contributing to the work at the FSB on the development of a system of Legal Entity Identifiers (LEIs). In this context, LEIs are seen as a critical tool for the data reporting regime.

An important element of the G20/FSB reform program is how to ensure a safe framework for non-centrally cleared derivatives and simultaneously to provide proper incentives for moving them to centralized clearing. In this context, IOSCO and the Basel Committee on Banking Supervision (BCBS), in consultation with CPSS and the Committee on the Global Financial System (CGFS), formed a working group in October 2011 to develop margin requirements for non-centrally cleared derivative trading. A consultative report was published in July, with a view to issuing policy recommendations by end-2012. Work to determine capital requirements for banks with exposures to CCPs is also pursued by BCBS in coordination with IOSCO and CPSS.

The subject of OTC derivatives is an area typically requiring close coordination among the relevant standard-setters. To this end, the FSB has set up an OTC Derivatives Coordination Group (ODCG) consisting of the Chairs of BCBS, CPSS, the Committee on the Global Financial System (CGFS) and IOSCO. The ODCG regularly discusses coordination of the various work streams undertaken by the relevant bodies. It also monitors progress in developing the so-called *four safeguards* that are needed to support a global approach to central clearing for jurisdictions seeking to meet the G20 deadline of end-2012 for fulfilling their commitments. These safeguards include:

- > fair and open access by market participants to CCPs;
- > cooperative oversight arrangements among relevant authorities;
- > appropriate resolution and recovery regimes for CCPs; and
- > effective cross-border liquidity arrangements for CCPs

## **B) Shadow Banking and Non-bank SIFs**

Another important strand of work in the G20/FSB context is the work on shadow banking and systemically important non-bank financial institutions (SIFs). IOSCO has been providing significant input to the work undertaken or coordinated by the FSB in this regard.

For shadow banking, the FSB has launched five work streams in developing policy recommendations, and IOSCO has been asked to directly undertake the leading work for two of them, money market funds (MMFs) and securitization. On MMFs, IOSCO published in April 2012 a consultation report, *Money Market Fund Systemic Risk Analysis and Reform Options*, which laid down a wide range of possible policy options to reduce the susceptibility of MMFs to runs. After taking into account the comments received from the public, IOSCO narrowed down those options to a set of policy recommendations



that it published in October 2012. On securitization, the aim is to prevent a return to the excessive leverage in the financial system that used securitization as a convenient tool, while creating the proper incentives for re-starting securitization as a useful vehicle for financial intermediation. Among a wide range of relevant issues, IOSCO, in coordination with the BCBS, is currently focusing on three issues for developing further policy recommendations: the use of retention requirements, enhancing transparency and promoting further standardization. Based on a survey among members and some earlier work assessing the comparability of relevant regulations in the EU and the US, IOSCO published a consultation report on *Global Developments in Securitization Regulation* in June 2012. IOSCO intends to develop policy recommendations on this subject, as appropriate, by the end of this year.

In addition, IOSCO is contributing to the FSB work on non-bank SIFIs, which are non-bank systemically important institutions that could cause significant disruption to the wider financial system and economic activity at the global level. The G20 gave the FSB the mandate to prepare, in collaboration with IOSCO, the methodologies for identifying these non-bank entities by end-2012.

### C) Other G20 Related Work

In addition to the aforementioned work, the G20 Leaders asked IOSCO to address some broader market issues and issues regarding commodities derivatives markets. For example, IOSCO analyzed recent technological developments, including a rapid growth of high-frequency trades (HFTs), that affect financial markets, and their impact on market integrity and efficiency. IOSCO recommended measures to help mitigate the effects of such developments in its report entitled *Regulatory Issues Raised by the Impact of Technological Changes on Mar-*

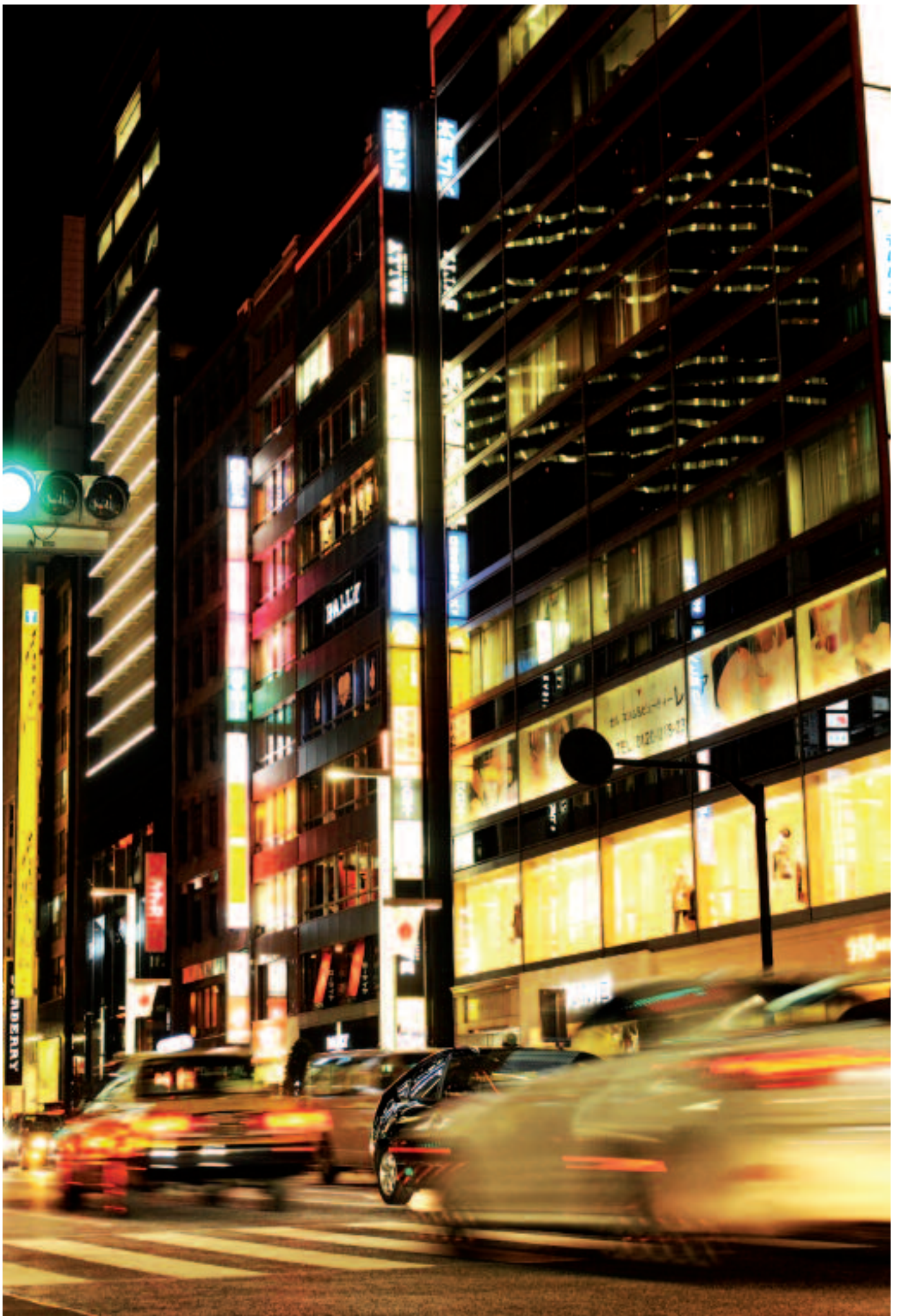
*ket Integrity and Efficiency* in October 2011. While endorsing the report, the G20 Leaders at the Cannes Summit in November 2011 called on IOSCO to undertake further work on market integrity and efficiency, and also to assess the functioning of credit default swap (CDS) markets. In June 2012, IOSCO published a report entitled *The Credit Default Swap Market* and submitted it to the G20 at the Los Cabos Summit.

As for promoting the efficiency and integrity of commodity derivatives markets, IOSCO developed the *Principles for the Regulation and Supervision of Commodity Derivatives Markets*, updating and expanding the guidance in its 1997 Tokyo Communiqué. This work contributes to ensuring a globally consistent approach to the oversight of commodity derivatives markets. As a follow-up, IOSCO will report to the G20 on the implementation of these principles by end-2012. IOSCO also conducted work to improve the functioning and oversight of oil price reporting agencies in collaboration with IEF, IEA and OPEC, for which a consultation report was published in March 2012, followed in October by the publication of a final report on *Principles for Oil Price Reporting Agencies*.

## 2. Other IOSCO Work

Along with the G20/FSB-related work described briefly above, IOSCO also is involved in extensive work covering a broad range of issues related to financial markets and their regulation. Among such topics, the work on Exchange Traded Funds (ETFs) could be an example of IOSCO's proactive role in addressing timely issues of interest to market regulators and stakeholders worldwide. Recent developments in the ETF markets across jurisdictions have raised some concerns among regulators that these markets require closer monitoring by regulators, and improved transparency and risk management for the benefit of investors. In response, IOSCO







published a consultation report entitled *Principles for the Regulation of Exchange Traded Funds*, proposing principles against which both the industry and regulators could assess the quality of ETF market regulation and industry practices to enhance investor protection, ensure the sound functioning of markets and sustain financial stability.

### 3. IOSCO Going Forward

As discussed, IOSCO has made significant progress in addressing numerous challenges identified during the financial crisis. It has contributed to enhancing the integrity and efficiency of the financial markets, and maintaining financial stability. However, we are probably still less than halfway through our long journey, given the rapid and profound evolution of financial markets and products and the speed at which technological changes are affecting them. Never has there been more uncertainty in the global market environment. New risks emerge constantly, and regulators are required to have the capacity and willingness to identify and address such emerging risks as early on as possible and with a more

coordinated international approach. IOSCO is playing an increasingly important role in making this possible. To meet this challenge, IOSCO recently took steps to improve its effectiveness and capacity going forward.

#### A) Establishment of the IOSCO Board

Under an agreement reached in April 2011, the IOSCO Board was established in May 2012 at the Annual Conference in Beijing. The new IOSCO Board subsumed the roles and activities of the Executive Committee, the Technical Committee, and the Emerging Markets Committee Advisory Board, to become an integrated representative body responsible for the management of the organization. This structural reform is intended to enhance IOSCO's presence in global discussions by enabling it to express its views with a single voice that is clear, coherent and forward-thinking. It also seeks to improve the quality and timeliness of IOSCO's standard-setting by strengthening its communication with members and stakeholders. A priority is to ensure IOSCO's inclusiveness through increased engagement with its broad membership, in particular with members from emerging markets.



## **B) Being ahead of the curve and leveraging the inclusiveness of IOSCO**

As described above, IOSCO's role in international financial regulatory reform has become increasingly significant during the past few years. As the sole integrated global standard-setter in the area of market regulation, IOSCO must continue to deliver the highest quality work in a timely manner. This is not limited to work commissioned by the G20/FSB, but includes all work of relevance to its membership. IOSCO needs to be forward-looking and proactive; to be ahead-of-the-curve. To this end, it could benefit from an enhanced Secretariat and a better and more focused work program. It could also leverage its broad global membership that comprises more than 200 authorities and associations or bodies in 115 jurisdictions. IOSCO needs to strengthen its communication with the public as well as among its membership and internal committees and task forces. Working to strengthen regulatory capacity and market infrastructure in emerging (or "growth") markets, strengthening technical assistance and research capacity, as well as providing support for investor education and promoting financial inclusion globally, will be the priorities of IOSCO from now and into

the future. In this regard, the proposed IOSCO Foundation could play a pivotal role in providing adequate support to emerging market members.

## **4. Conclusion**

As mentioned above, IOSCO's role as the international standard-setter in the area of securities regulation has expanded remarkably in recent years, while the expectations of stakeholders have grown significantly. At this important juncture for IOSCO, it is a great honor but also a formidable challenge for me to serve as Chair of the IOSCO Board. I am firmly committed to doing my best at effectively and expeditiously dealing with the challenges, in close cooperation with the extremely competent Vice Chairs and Board members, and with the support of all our members. There is no time to lose and IOSCO shall move forward with its work effectively and without delay.



## Report from the Chair of the Emerging Markets Committee

### Vedat Akgiray

- > Vice Chair of the IOSCO Board
- Chair of the Emerging Markets Committee
- Chair of the Capital Markets Board of Turkey

The activities of the Emerging Markets Committee (EMC) over the past 12 months can be broken down into the following areas:

### FSB Related Issues

The Financial Stability Board (FSB) report on *Financial Stability Issues in Emerging Market and Developing Economies* (EMDE) was published in October 2011. The report, which was prepared in response to a request by G-20 Leaders at the November 2010 Seoul Summit, focused on five key financial stability issues in EMDEs:

- > Application of international financial standards;
- > promoting cross-border supervisory cooperation;
- > expanding the regulatory and supervisory perimeter;
- > developing domestic capital markets; and
- > managing foreign exchange risks. The EMDE Report made a number of recommendations on policy measures to national authorities in EMDEs to address these issues, and on ways that the international community can support them in their efforts. The EMC actively participated in this work stream, particularly in drafting the Report's Chapter on "Developing Domestic Capital Markets".

In addition to this workstream, I attended the FSB Plenary meetings held in Rome in April 2011 and in Paris in July 2011, representing IOSCO as the Chair of the EMC.

### New IOSCO Strategic Direction

The EMC has actively contributed to the work of IOSCO through my participation as EMC Chair in the Executive Committee and Technical Committee; particularly in the development of the new IOSCO Strategic Direction on the Future Role of the EMC, the fair representation of the EMC

in the IOSCO Board and the new IOSCO architecture. In addition, together with the EMC Vice Chair, I have also participated in the Task Force on the Strategic Direction.

Furthermore, I have also participated in the MMoU Decision Making Group, which decides on the applications to become a MMoU signatory.

### EMC Task Forces

#### EMC Chair's Task Force

The EMC Chair's Task Force, whose membership is open to all EMC members, aims to identify relevant regulatory issues and provide recommendations for future work. To this end, it was decided to circulate a survey to the EMC jurisdictions every year, and the annual surveys have been circulated since 2008. The results of the fourth survey were presented during the EMC Conference held in Punta Cana (Dominican Republic) on 18 October 2011.

#### EMC Task Force on the Development of Corporate Bond Markets in Emerging Markets

The Report on the *Development of Corporate Bond Markets in the Emerging Markets* was developed by a Task Force chaired by SC Malaysia and SEBI India. The Report was published in November 2011. This was a joint effort carried out by the IOSCO EMC in collaboration with the World Bank Group. The report aimed to review the current state of development of corporate bond markets in EMs, and discussed the issues and challenges. It has provided EMs with guidance and direction in regulating and developing their respective corporate bond markets. The report seeks to address the varying needs of the EMs in developing corporate bond markets that are at different stages of development. It has identified a comprehensive set of novel recommendations encompassing both regulatory and developmental issues.

The importance of developing local corporate bond markets has also been highlighted in the FSB Report to G20 Finance Ministers and Central Bank Governors on “Financial Stability Issues in Emerging Market and Developing Economies”, which was published in October 2011. A letter regarding the publication of the report was sent to the FSB Secretariat in December 2011 for circulation among FSB Plenary members. The idea was to submit the report to the forthcoming meetings of the FSB Regional Consultative Groups in order to promote its recommendations.

### **EMC Working Groups and Other Relevant Issues**

The recent activities of the five Working Groups of the EMC are described in the section of the Annual Report focusing on the Organization’s policy work.

The EMC was represented by the former Vice Chair Ms. Zarinah Anwar<sup>1</sup> in the Monitoring Board of the International Financial Reporting Standards Foundation. The members of the Monitoring Board are the Emerging Market Committee and the IOSCO Board (the Technical Committee, until May 2012), the European Commission, the Financial Services Agency of Japan and the US Securities and Exchange Commission. The Monitoring Board’s main responsibilities are to ensure that the Trustees of the IFRS Foundation continue to discharge their duties as defined by the IFRS Foundation Constitution, as well as approving the appointment or reappointment of Trustees.

## **Progress made by the EMC members in meeting the requirements of the IOSCO MMoU**

Following the approval of an IOSCO Resolution in 2010 to ensure that all IOSCO member jurisdictions have signed onto Appendix A of the MMoU by January 2013, the MMoU had 44 signatories from the EMC by the end of 2011. Additionally, 33 EMC jurisdictions were listed on the Appendix B, the list of members who lack the legal authority to fully comply with the MMoU provisions but who are committed to becoming signatories. There are still three jurisdictions which have not applied to become a signatory to the MMoU. All of them are EMC members. Since the deadline of 1 January 2013 is approaching, I am greatly impressed by the efforts made and the commitment shown by the EMC members in support of this important goal. However, there is still work to be done on this front. EMC members should prioritize this area of work.

## **Training programs organized for emerging market members including a joint event with the SROCC**

The following seminars and training programs were organized for the EMC members over the last 12 months:

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<sup>1</sup>Ms. Zarinah Anwar retired as Chair of the SC Malaysia as of 1 April 2012 and her tenure of EMC Vice Chair ended on the same date. Mr. Ranjit Ajit Singh, the new Chair of the SC Malaysia, took over as the EMC Vice-Chair.





- > The first Inter American Mobile Seminar Training Program (STP) was held in San José, Costa Rica on 9 and 10 March 2011 on “Understanding New Financial Products and the Regulatory Implications of those Products”. The African Middle East Mobile STP was held from 8 to 10 June 2011 in Marrakesh on the same topic. On 29<sup>th</sup> and 30<sup>th</sup> of November, this STP was held in Kuala Lumpur for the APRC region.
- > The annual STP was held at the IOSCO’s headquarters in Madrid from 25 to 28 October 2011 on “Investor Protection: The Latest Developments in Research, Investor Education, and the New IOSCO Principles”.
- > The 4<sup>th</sup> SROCC Training Seminar was held from 1 to 3 November 2011 in Taipei, Chinese Taipei. The program covered issues relating to enforcement of regulations, management of conflicts of interest, risk management and internal control of market intermediaries, as well as principles for issuers on disclosure and transparency.
- > The sixth edition of the Joint IOSCO/FSI seminar on “Trading Book Issues and Market Infrastructure” was held at the IOSCO headquarters in Madrid from 16 to 18 November 2011. The first part of the seminar focused on the “CPSS/IOSCO Financial Market Infrastructures Work”, the second part on “Market Risk Framework and Counterparty Credit Risk” and the third part on “Market Developments”.
- > Risk-Based Supervision Workshop for the Africa/Middle East region was held in Kampala, Uganda from 11-14 October 2011, co-hosted by the Capital Markets Authorities of Uganda and Kenya. The workshop was designed for staff with responsibilities for supervision, and experts from the Netherlands AFM, US FINRA, and The International Monetary Fund (IMF) lectured in the training session. The training included two case studies on risk based supervision of securities firms and on mutual funds. The event was jointly organized with the IMF.
- > Four Market Development Workshops were organized within the ambit of the 2011 EMC Meeting and Conference in Punta Cana (Dominican Republic) from 17-19 October 2011. This was the first time that a “workshop format” was used which featured much more interaction and participation by member attendees than in past years. The new format has been very successful and has received a lot of positive comments from the membership.
- > A Seminar on Compliance with IOSCO Information Sharing: Admission to the MMoU was organized for 20 October 2011 by the EMC, together with the Toronto Centre as part of the 2011 EMC Meeting and Conference.





## Report from the Chair of the SRO Consultative Committee

### Yoshio Okubo

> Chair of the SRO Consultative Committee  
Chief Regulatory Officer,  
Japan Securities Dealers Association

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.



## Report from the Secretary General

**David Wright**  
> Secretary General

**I took up my appointment as the new Secretary General of IOSCO on 15 March 2012. It has proven already to be a thrilling and fascinating global regulatory experience – made even more enjoyable by my being able to work with a highly competent and motivated IOSCO Secretariat team. I would like to thank Tajinder Singh, all my colleagues in the Secretariat and IOSCO members for assisting me so well in my first months. Before embarking on a few reflections for the future, let me also thank on behalf of all of the IOSCO family my predecessor Greg Tanzer for all his contributions to the development of IOSCO. Fortunately he remains within the world’s securities regulatory perimeter as he is now an ASIC Commissioner in Australia.**

There is a strong feeling, supported by the regulatory community and the private sector alike, that the global financial system is undergoing a major structural shift resulting from this massive financial crisis. Market based financing and securities markets are destined to play a much bigger relative role in the years ahead in the financing of the global economy. This is because the banking system will be required, permanently, to hold much higher levels of capital, and credit supply will be constrained as the process of global deleveraging continues. The public sector will clearly not be able to take up the slack. Hence, ceteris paribus, this will enhance the importance of IOSCO and all securities regulators. IOSCO needs to prepare to take on in the future even more responsibility for global financial regulation.

I believe it is very important that we work hard together to identify the major emerging risks we face – and to shape our policy agendas increasingly on the basis of those key risks. Sophisticated, in-depth research here is crucial – as will be the regular contributions of the IOSCO Board, the Standing Committee on Risk and Research, the Emerging Market Committee, IOSCO’s four Regional Committees and all our members, as well as the views of the Self-Regulatory Organizations Consultative Committee, the Assessment Committee and a wide range of stakeholders.

Much of our current policy efforts are focused on delivering important work for the FSB/G20 agenda. This will continue

next year and beyond; refinements will need to be made. Policies will need to be adapted for new market behavior and technology. New risks will emerge. I am certain through our dedicated and efficient Committees and Task Forces, and their able Chairs, we will be able to rise to the challenges and the tight timetables.

I hope 2013 will be the year when we launch the IOSCO Foundation. As members will be aware we tabled at our Beijing Annual Conference (outstandingly organized by our Chinese hosts from the China Securities Regulatory Commission ) a concept paper on what this Foundation should consist of, how it should be financed and governed etc. I was very pleased that this idea was unanimously and enthusiastically welcomed by all members. Since Beijing we have refined the ideas further, drawn up draft by-laws and a Charter and we are now finalizing the consultation with members. The Foundation is an essential tool for IOSCO’s future: it will help spread the implementation of IOSCO’s Principles and the MMoU, and especially will assist our emerging market members. Having the funds to offer and deploy top class technical assistance, education and training, and research programs will substantially enhance IOSCO’s outreach, leverage and global influence. It will substantially strengthen IOSCO’s role in investor/consumer protection, capacity building and addressing systemic risks, all of which are key objectives for us.



I remain persuaded that a critical part of IOSCO's forward agenda must focus on improving behavior and conduct in firms. The LIBOR scandal, the latest of an increasing number of major financial scandals, is eroding trust in capital markets at the very time when we need them to grow. Robust corporate governance, deterrent global sanctions regimes and proper market incentives, including on remuneration, are essential for safer, sounder and more sustainable financial markets.

The MMoU continues to be a cornerstone of IOSCO and is now increasingly recognized as the global benchmark in enforcement related cooperation. We are making substantial progress towards our ambitious goal of having all our members sign up to this instrument. Likewise, effective implementation of IOSCO Principles is clearly

central to our work, and our members and Committees are committed to work together with the Assessment Committee to further this aim.

The newly structured IOSCO Board has begun well. We had a very productive first meeting at our headquarters in October with a very useful roundtable on emerging risks that was attended by top industry executives. It was a welcome development that the Board approved the Secretariats' membership and voting rights proposal at this meeting. I would like to thank Board members for their spirit of compromise and willingness to move forward. Of course further consultation will take place before formal adoption at the IOSCO Annual meeting in Luxembourg in September 2013. We face other major organizational challenges in the months and years ahead, and we need

to settle the future composition of the IOSCO Board as soon as possible. We also need to enhance the role of the EMC and strengthen IOSCO's inclusivity wherever possible.

We have received very encouraging feedback concerning our efforts to improve communication within the organization including our weekly updates. We will aim to strengthen this important aspect further with increased use of innovative web based tools, such as webcasts in the future.

As 2012 comes to a close and we look forward to another year of major regulatory challenges, I also think we should begin to reflect even longer term; to look ahead 20 or 30 years hence, when there will be many big securities markets around the world. What do such changes mean

for IOSCO as an International Organization? For cross-border cooperation? For implementation? For settling disputes among members? For enforcement?

My final remark is to thank, on behalf of all our membership, our tireless and exceptional Chair – Masamichi Kono – for all his unstinting efforts on behalf of IOSCO, and to welcome in advance Greg Medcraft, who will become the new IOSCO Chair after the Sydney IOSCO Board meeting in March 2013.



# Activities of IOSCO's Working Committees in the Year

**IOSCO made important contributions to the global regulatory reform agenda in the period between April 2011 and May 2012. Much of its work on securities market regulation was conducted in response to mandates from the G20 leaders and the Financial Stability Board, as part of the global effort to restore financial stability and strengthen market confidence.**

IOSCO's policy work in the period was the responsibility of two specialized committees, the Technical Committee (TC) and the Emerging Market Committee.

Until May 2012, the role of the Technical Committee (TC) was to review the regulatory issues facing international securities markets and to coordinate practical responses to these concerns. This work was carried out by the TC Standing Committees, each one working in one of the following policy areas;

- > Multinational Disclosure and Accounting;
- > Regulation of Secondary Markets;
- > Regulation of Market Intermediaries;
- > Enforcement and Exchange of Information;
- > Investment Management; and
- > Credit Rating Agencies

The Emerging Market Committee (EMC) seeks to develop and improve the efficiency of emerging securities markets through the introduction of minimum standards, the provision of training programs for members' regulatory staff and facilitating the exchange of information, technology

and expertise. Until May 2012, and covering the period of this annual report, it encompassed Working Groups in the following five areas:

- > Disclosure and Accounting;
- > Regulation of Secondary Markets;
- > Regulation of Market Intermediaries;
- > Enforcement and Exchange of Information; and
- > Investment Management

Both committees also established special task forces to examine relevant developments in financial markets. Although they have separate mandates, the Technical Committee and the EMC share the common objective of ensuring fair, efficient and transparent markets, and cooperate closely through their Policy Committees and the Working Groups in areas that overlap.

## **Organizational Changes Going Forward**

At its Annual Conference in Beijing in May 2012, IOSCO constituted a new Board to subsume the activities of the Technical Committee, the Executive Committee and the





Emerging Markets Committee Advisory Board. The move was aimed at streamlining IOSCO's organizational structure and decision-making capabilities in an effort to make the Organization more effective and inclusive.

Although the EMC underwent no changes, IOSCO merged the policy and standard-setting work of the Technical Committee Standing Committees (TCSC) and the EMC Working Groups in the areas where they coincided, in a move to enhance the effectiveness of the committees.

## The Technical Committees Work Program

### Multinational Disclosure and Accounting – TCSC1 (From May 2012, the Committee 1 on Multinational Disclosure and Accounting, C1)

The work of Committee 1 is focused on improving the development of accounting and auditing standards, while improving the quality and transparency of the financial information that investors receive from listed companies and financial institutions. The accuracy, integrity and comparability of financial accounts are seen as essential to maintaining investor confidence and reestablishing a stable international financial system.

Committee 1 continues to monitor and support the work of the international accounting standard-setting bodies. This work involves monitoring the projects undertaken by the International Financial Reporting Standards Foundation (IFRS Foundation), and observing the IFRS Interpretations Committee (IFRIC), the IFRS Advisory Council and other IFRS Advisory Groups. The IFRS Foundation is the legal entity under which the International Accounting Standards Board (IASB) operates. Committee 1 contributes to the standard-setting work of the International Accounting Standards Board (IASB) through its involve-

ment in the IASB work streams and its comment letters. IOSCO also is a member of the Monitoring Board that oversees the IFRS Foundation.

IOSCO believes that international audit standards that contribute to high quality audits are important for securities regulators, therefore it continues to monitor the activities of IFAC's International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA), and provides input to the IOSCO members who participate in their respective Consultative Advisory Groups (CAGs).

Following a rash of corporate scandals at the turn of the 21 century, IOSCO participated in the constitution of the Monitoring Group (MG) and the Public Interest Oversight Board (PIOB), both of which were designed to implement the 2003 reform of the standard-setting and compliance activities of the International Federation of Accountants (IFAC).

On 28 March 2012, the Monitoring Group and the PIOB jointly published their Consultation Reports on the MG Governance Review and PIOB Work Program. The final report is expected to be released by end 2012.

In February 2012, Committee 1 published its Consultation Paper on *Principles for Ongoing Disclosure for Asset-Backed Securities*, which received comment letters until 20 April 2012. The principles are aimed at enhancing investor protection by facilitating a better understanding of the issues that regulators should consider when developing or reviewing their disclosure regimes for ABS. The final report is expected to be published in the final quarter of 2012.





### **Regulation of Secondary Markets TCSC2 (From May 2012, Committee 2 on Regulation of Secondary Markets, C2)**

This committee is concerned with developments in the structure of global capital markets and financial market infrastructure and how they are affected by, and contribute to, the current financial crisis.

Following publication in October 2011 of the final report on *Regulatory Issues Raised by the Impact of Technological Changes on Market Integrity and Efficiency*, Committee 2 accepted a mandate from the G20 to produce a report on *Technological Challenges to Effective Market Surveillance: Issues and Regulatory Tools*, which it published for consultation in August 2012. The committee is currently working on a consultation report on issues raised by changes in market structure.

In May 2011, Committee 2 completed a final report on *Principles for Dark Liquidity*, which sets out principles on dark pools and dark orders aimed at addressing regulatory concerns with respect to price discovery, fragmentation of information and liquidity, as well as market fairness and integrity.

In December 2011, the Committee 2 mandate on Trading Fee Models and their Impact on Trading Behavior was approved. In the first step, questionnaires were distributed among trading venues and regulators in an effort to gather information on current regulatory frameworks, the different fee models and fees charged by trading venues and the potential impact of different fee models on trading behavior. Committee 2 expects to have the survey results ready for discussion in early 2013.

### **Regulation of Intermediaries (TCSC3) (From May 2012, Committee 3 on Regulation of Market Intermediaries, C3)**

The financial crisis underscored how financial innovation and the growing complexity of financial products often work to mask the associated investment risks for investors. The collapse of Lehman Brothers in mid-September 2008 raised serious questions about the extent to which intermediaries were responsible for failing to assess the suitability of structured investment products.

To that end, Committee 3 published a consultation report on *Suitability Standards in Connection with Complex Financial Products* in February 2012, as part of its drive to enhance investor protection. The project considered the appropriateness of developing guidance or principles for regulations addressing the suitability and disclosure requirements for the distribution of complex products to retail and non-retail customers. The consultation period ended on 21 May 2012 and a final report is expected by end 2012 or early 2013.

Committee 3 also prepared during the period the *Report on Investor Education Initiatives Relating to Investment Services*, which looks at the financial education programs that securities commissions and others offer to educate investors on the financial products commonly distributed by intermediaries. It was due to be published publicly by end 2012.

In 2011, Committee 3 undertook a project to update IOSCO's 1989 Public Document on *Capital Adequacy Standards for Securities Firms*. The decision was taken in response to a Joint Forum Report on the need for a uniform global capital standard for the securities sector that would help prevent regulatory arbitrage. The project aims at identifying gaps and inconsistencies among prudential frameworks, with a view to facilitating the convergence of prudential standards over the long term. A report on the capital standard is expected to be completed by end 2012.

Committee 3 set up a working group to determine a set of indicators for identifying systemically important non-bank market intermediaries (NBMIs) in the securities sector. A final draft report will be prepared by December 2012 and will provide general guidance for identifying systemically important NBMIs.

### **Enforcement and Exchange of Information (TCSC4) and the IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Co-operation and the Exchange of Information Screening Group (From May 2012, Committee 4 on Enforcement and the Exchange of Information, C4)**

IOSCO continues to view enforcement co-operation between regulators as a crucial area and the Standing Committee and Screening Group are working to implement global enforcement co-operation under the IOSCO MMoU; to further develop and enhance co-operation among MMoU signatories; and to provide guidance and set out best practices in enforcement investigations in specific areas and more generally (as described below).

The IOSCO MMoU is the international standard for cooperation and information exchange among regulators for securities enforcement purposes. The committee has continued to support the work of the MMoU Screening Group and the General Secretariat in assisting IOSCO member jurisdictions to meet the requirements for becoming signatories to the MMoU. By May 2012, 86 of the 122 eligible members were full signatories of the MMoU while a further 30 had indicated their commitment to seek the legislative and administrative changes necessary to become signatories.

The IOSCO Contact Initiative, which seeks to engage on a positive basis with under-regulated or uncooperative jurisdictions, has continued to reap real benefits, resulting in a number of those jurisdictions applying to become members of IOSCO and to sign the MMoU.

The committee also finalized its Best Practices in Digital Evidence report, and its guidance to assessors when reviewing whether a regulator has an Effective Enforcement Program.

In the course of the year, the committee has continued to develop a legislation forum, containing examples of legislation from around the world which members have found to be of particular use in conducting investigations and sharing information with their counterparts overseas. The forum will shortly be published on the IOSCO website for IOSCO members' use.

The Investors Alert Portal, which provides a single point of access to alerts and warnings from IOSCO members about firms offering investment services in their jurisdictions without authorization, continues to flourish.

Finally, and to advance IOSCO's objective of achieving full implementation of the MMoU, IOSCO passed a resolution confirming the publication, in 2013, of a list of those IOSCO members who have not signed the MMoU. Publication of the list is a necessary step, not only because IOSCO resolved to do so in 2012, but because it will serve as a powerful tool in persuading jurisdictions to make the legislative changes required to become MMoU signatories. In addition, the resolution confirmed that IOSCO will consider, in 2013, introducing graduated additional measures to encourage non-signatories to become MMoU compliant.

### **Investment Management (TCSC5) (From May 2012, Committee 5 on Investment Management, C5)**

During the year, Committee 5 continued with its work on Collective Investment Schemes (CISs). In January 2012, it issued the final report on *Principles on Suspensions of Redemptions in Collective Investment Schemes*. The report was drafted in response to the failure of some open-ended CISs or CIS management companies to meet redemption requirements. The principles reflect a common level of approach and provide standards against which both regulators and the industry can assess the quality of regulation and industry practices concerning suspensions of redemptions.

Further work gave rise in February 2012 to the consultation report on *Principles for the Valuation of Collective Investment Schemes*. This report set out 13 principles for assessing the quality of regulation and industry practices concerning the valuation of CISs, and it reflects the developments in the sector since 1999, including the increase in the use by CISs of complex and hard-to-value assets. These valuations are important because if portfolio securities and assets are incorrectly valued, investors may overpay for their shares or receive less than they should upon redemption. Remaining investors may also

be adversely affected. The final policy principles are expected to be submitted to the Board in early 2013 for approval.

Finally, Committee 5 published the consultation report *Principles of Liquidity Risk Management for Collective Investment Schemes* in April 2012. The fundamental requirement of liquidity risk management is to ensure that the degree of liquidity that the open-ended CIS manages allows it in general to meet redemption obligations and other liabilities. The proposed principles of liquidity risk management provide details on how compliance with this requirement can be achieved. A final document is expected to be submitted to the Board for approval by end 2012.

In March 2012, the committee published a consultation report on *The Principles for the Regulation of Exchange Traded Funds*, which examined the key regulatory issues concerning ETFs. Interest in these products has increased worldwide as evidenced by the significant investment they attract. This dynamic growth has drawn the attention of regulators concerned about the potential impact of ETFs on investors and the marketplace. The consultation report proposes a comprehensive set of 15 principles that seek to address concerns regarding product labeling and commercial practices for better investor protection, the structuring of ETFs and the sound functioning of markets. The final report is likely to be submitted to the Board for approval in 2013.

In April 2012, Committee 5 issued a consultation report analyzing the systemic importance of Money Market Funds. The initiative is part of the effort by the G20 and the Financial Stability Board to strengthen the global oversight and regulation of the shadow banking system. A final report on *Policy Recommendations for Money Market Funds* was published in October.

In response to a request from the G20 at the Cannes Summit of November 2011, Committee 5 is working on the development of a methodology aimed at assessing the systemic significance of asset management entities or CISs other than hedge funds. This work is being lead in coordination with Committee 3 on Regulation of Market Intermediaries and the Task Force on Unregulated Entities (hedge funds), each of which is developing the same type of methodology for its respective area of work.

### **Credit Rating Agencies (TCSC6) (Committee 6 on Credit Rating Agencies, C6)**

Committee 6 prepared a consultation report on Credit Rating Agencies (CRA) based on a review of their internal controls and their procedures to manage conflicts of interest. The review was motivated by the role of CRAs in the 2008 financial crisis, which raised concerns about the quality of credit ratings and their methodologies, the time-

liness of adjustments to credit ratings, and, more generally, the integrity of the credit rating process. The 2008 financial crisis also raised concern about how conflicts of interest are being managed by CRAs.

The consultation report, entitled *Credit Rating Agencies: Internal Controls Designed to Ensure the Integrity of the Credit Rating Process and Procedures to Manage Conflicts of Interest*, described the operational practices of the CRAs that are designed to give effect to the relevant provisions of the IOSCO Code of Conduct Fundamentals for Credit Rating agencies, published in December 2004 and revised in May 2008.

Committee 6 is also developing recommendations for setting up supervisory “colleges” for globally active

CRAs, and expects to finalize a report on this subject by the end of 2012. In addition Committee 6 is conducting a review of the *IOSCO Code of Conduct Fundamentals for Credit Rating Agencies* (IOSCO CRA Code), which was established prior to the global effort to implement registration and oversight programs for CRAs. The goal is to create by early 2014 an updated IOSCO CRA Code that works in harmony with CRA registration and oversight programs, and continues to operate as the international standard for CRA self-governance.

#### **Committee 7 on Commodity Futures Markets, C7**

In Nov 2010, the G20 asked IOSCO, the International Energy Agency (IEA), the International Energy Forum (IEF)





and the Organization of the Petroleum Exporting (OPEC) to produce a preliminary joint report on how the oil spot market prices are assessed by oil price reporting agencies (PRAs) and how this affects the transparency and functioning of oil markets.

Based on a representative sample of companies and other entities that use the price quotation of the PRAs, including oil majors, national oil companies, banks, trading houses and independent oil producers and refiners, the group issued *Oil Price Reporting Agencies Report by IEA, EF, OPEC and IOSCO to G20 Finance Ministers*, in October 2011

At their meeting in November 2011, the G20 Leaders asked "IOSCO, in collaboration with the IEF, the IEA and

OPEC, [to] prepare recommendations to improve their functioning and oversight to our Finance Ministers by mid-2012."

Committee 7 prepared by March 2012 the consultation report *Functioning and Oversight of Oil Price Reporting Agencies*, which examined the role played by Oil Price Reporting Agencies (PRAs) in the functioning of oil markets, their methods of operation and governance and potential options for future oversight. In October 2012, IOSCO published the final report, *Principles for Oil Price Reporting Agencies*, which sets out principles intended to enhance the reliability of oil price assessments that are referenced in derivative contracts subject to regulation by IOSCO members.



### Task Forces of the Technical Committee

Much of the work conducted by the TC Task Forces was related to mandates from the G20/FSB in the area of OTC derivatives market reform and shadow banking. In his report on the year, the Chair of the Technical Committee provides an overview of the work of the Task Forces on trading of OTC derivatives, requirements for mandatory clearing, trade repositories and principles for financial market infrastructures – conducted in collaboration with the Committee on Payment and Settlement Systems at the Bank for International Settlements. In the area of shadow banking, the Chair describes the work conducted on money market funds and securitization, among others. He also mentions the work on systemically important non-bank financial institutions, including Collective

Investment Schemes and asset management entities other than hedge funds. Apart from the work being done by C5, the Task Force on Unregulated Markets and Products (TFUMP) is working on securitization regulation and is scheduled to have a final report published by the end of 2012. TFUMP is also working in the area of retail structured products.

The Task Force on Unregulated Entities (TFUE) continued its focus on the oversight and regulation of hedge funds, in addition to its work on the methodology for identifying systemically important hedge funds, as described earlier in this Annual Report. After completing the revision of a common template for the global collection of hedge fund information, TFUE expects to conduct the Second Hedge Fund Survey in late 2012 or early 2013.



## Report from the Chair of the Africa/Middle-East Regional Committee

### Arunma Oteh

> Chair of the AMERC  
Director General,  
Securities and Exchange Commission, Nigeria



During the year under review, representatives from the Africa-Middle East Regional Committee (AMERC) participated actively in IOSCO activities.

AMERC representatives attended the meetings of the Technical Committee, the Executive Committee and the Emerging Markets Committee Advisory Board in Rio de Janeiro, Brazil in January 2011, in Madrid in September 2011, and in Punta Cana, Dominican Republic in October 2011.

As Chair, I attended the inaugural meeting of the new IOSCO Board during IOSCO's Annual Meeting in Beijing in May 2012.

The 26<sup>th</sup> IOSCO Africa/Middle-East Regional Committee Conference was held in Mauritius from 9 – 11 February 2011. The theme of the conference was *Regulatory Cooperation and New Challenges*. Hosted by the Financial Services Commission, Mauritius, the conference was attended by about 105 participants from 12 countries, in-

cluding participants from the public and private sectors of the Mauritius economy.

The deliberations centered on *Capital Markets Regulation and Financial Stability*, as well as *Demutualization of Stock Exchanges: Issues and Challenges*. The conclusions included the following:

- > That market risks should be detected early and managed well.
- > New global standards should be set in the light of the recent financial crisis.
- > That proper planning of regulatory activities was vital to a stable and sound market.
- > On the issue of mitigating systemic risks, it was agreed that while innovation should be encouraged, the direction of market regulation should be Risk Based Supervision (RBS).



- > A case was made for Stock Exchanges in the sub-region to consider demutualization in view of the numerous benefits to be derived from it, such as good corporate governance, business opportunities, enhanced transparency and corporate profile etc.

## Training seminars and Workshops

AMERC organized the risk-based supervision workshop in Kampala, Uganda from 11 - 14 October 2011. Based on the case/study approach, the workshop was attended by participants from over 16 AMERC jurisdictions with faculty provided by experts from the International Monetary Fund, the Financial Industry Regulator Authority (FINRA) of the United States and the Autoriteit Financiële Markten of the Netherlands.

The main objectives of the workshop were to provide participants with effective tools for supervision and the legal and regulatory framework needed to support effective risk-based supervisory regimes in the various jurisdictions.

- > Review of standards such as IOSCO Principles and Methodology to bring new participants into the perimeter of regulation e.g. hedge funds, credit rating agencies etc.
- > Strengthening of oversight of participants already covered by the IOSCO Principles.
- > Review of legal and regulatory frameworks to address gaps in line with IOSCO reforms.
- > Changes in regulatory agencies for better supervision and understanding of sectoral wide trends through macro prudential supervision.
- > Better understanding of the business models of individual firms and their risks, to better evaluate and challenge the business models and strategies.
- > Effective enforcement. Supervision without enforcement does not work.
- > Need for regulatory independence and political will as well as adequate staffing.
- > Enhanced internal and external cooperation in the areas of joint work in supervision and when necessary crisis management.

Takeaways:

The consensus opinion was that regulators should:

- > Embrace macro-prudential supervision to prevent financial system collapse.

- > Undertake consolidated joint risk based supervision of financial institutions in order to engender synergy and forestall regulatory arbitrage.
- > Consolidate capacity building initiatives for a free flow/exchange of ideas on regulatory practices among their respective staff. (i.e: Joint CBN, SEC, NAICOM Training Programs).
- > Have a clear and unambiguous mandate, operational independence, accountability, skilled staff and constructive working relationships with other sister agencies.
- > Accept the use of stress testing strategies for effective risk management and national financial stability.

## AMERC/IOSCO Training Seminar Program

Le Conseil Déontologique des Valeurs Mobilières (CDVM), Morocco hosted the AMERC /IOSCO training seminar program in Marrakesh, Morocco 8 -10 June 2011. The seminar on *Understanding New Financial Products and the Regulatory Implications of Those Products* was attended by 65 participants from 25 countries around the world.

The objective of organizing this event was to contribute to the process of capacity building among members in the region, especially those in AMERC, and to exchange experiences with them.

The event was a great success and one of the best regional STP organized during 2011. With good participation and high quality attendees, the discussions were very valuable and were much appreciated by the speakers and the IOSCO General Secretariat.

Speakers were from Morocco and Europe and were selected based on their expertise in the market, which meant their interventions dealt with relevant issues that included the following:

- > Structured Islamic Finance Products
- > Causes of the financial crisis and the Regulatory Responses
- > Derivatives: Structure and Operation
- > Structured Retail Products and the Resulting Regulatory Challenges
- > Derivatives: Regulatory Challenges from an Industry Perspective
- > Hedge Funds
- > Developing and launching derivatives market: the Moroccan Case study



## THE 28<sup>TH</sup> IOSCO AMERC ANNUAL MEETING IN MOMBASA, KENYA

The 28<sup>th</sup> IOSCO/Amerc annual meeting was held on 23 February 2012 in Mombasa, Kenya and was attended by about 120 participants from 15 countries, as well as from both the public and private sectors of the Kenyan economy.

The deliberations centered on **Capital Market Regulation and Financial Stability** as well as **Regional Memorandum of Understanding: Issues and Challenges**. The highlights were:

- > The importance of information sharing for preventing regulatory arbitrage; the shift in market regulatory focus from aggregate market performance statistics to financial stability indicators as a result of the global financial meltdown; and the need for stronger regulatory cooperation and collective action in the face of the financial meltdown.
- > Issues relating to political upheaval in parts of the region and the impact on the capital market.
- > The attractiveness of the region to investors due to high investment returns and the need for new product development.
- > The need to strengthen AMERC Seminar Training Programs for maximum benefit.
- > The goal and aspiration of having a majority of members sign the Regional Memorandum of Understanding. To facilitate this, members were encouraged to obtain the necessary approvals required within their jurisdiction.
- > Update on IOSCO strategic direction and EC\TC, EMCAB, EMC Annual conference.
- > Reports by members in IOSCO MMoU Appendix "B" Category.

The new Chief Executive Officers of Dubai, Ghana, Jordan, Mauritius, Oman, Tanzania and Zambia attended the meeting.

## AMERC Meeting at the 39<sup>TH</sup> IOSCO Annual Conference Held in Beijing China 13 – 17 June 2012

The conference was attended by 19 AMERC member countries. Both my Vice Chair from the CDVM, Morocco and I were re-elected to steer the AMERC leadership for the next two years.

Also notable at the meeting was the signing of a Regional MMoU by some members of the AMERC jurisdictions. The purpose was to further strengthen regulatory tools and information sharing among members.

## SELF ASSESSMENT EXERCISE

The Securities and Exchange Commission and the entire Nigerian financial sector are currently undergoing the Self-Assessment being carried out by the International Monetary Fund in conjunction with the World Bank on the 38 IOSCO Principles of Securities Regulation.

## MEMBERSHIP

During the period, Syria and Saudi Arabia were admitted as Appendix 'A' Signatories of the IOSCO MMoU.

## FUTURE EVENTS

AMERC Annual Seminar Training Program will be hosted by the United Arab Emirates' Securities and Commodities Authority from 10 – 12 December 2012, in Dubai.





## Report from the Chair of the Asia-Pacific Regional Committee

**Mr. U. K. Sinha**

> Chair of the APRC

Chair, Securities and Exchange Board of India

**The economic growth rate of the Asia Pacific region is significantly higher than the world average, making the region a major contributor to the world economy. In this context, the APRC has huge potential to contribute to the growth of the Asia Pacific region by working towards strengthening fairness, efficiency and transparency of the securities markets in the region.**

According to the International Monetary Fund (Regional Economic Outlook April 2012), the Gross Domestic Product of the Asia Pacific Region grew 5.9% in 2011, and is projected to grow 6.0% in 2012 and about 6.5% in 2013. The IMF (World Economic Outlook April 2012), predicts global GDP will grow 3.5% in 2012, down from 4% in 2011, before returning to about a 4% rate in 2013. According to the latest data of the World Federation of Exchanges, the Asia Pacific region accounted for some 31% of world market capitalization at end-2011, almost double the share in 2000. At end-2011, the Asia Pacific region was home to four of the top 10 stock exchanges in the world in terms of equity market capitalization.

### **APRC Activities during 2011**

During the year 2011, two meetings of the APRC took place. The first meeting was held during the 36<sup>th</sup> IOSCO Annual Conference in Cape Town, South Africa on 18 April 2011 when I was elected as Chair of the APRC. The subsequent APRC meeting was hosted by SC Malaysia in Kuala Lumpur on 1 December 2011. I chaired both these meetings.

During the Cape Town meeting, Ms. Jane Diplock presented an update on the progress of initiatives launched under the new strategic direction of IOSCO and highlighted that IOSCO's Strategic Direction Task Force had taken into account the feedback from the small consultation group of nominated representatives from the four regional groups, including the APRC. A discussion regarding the consultation with APRC members on IOSCO's membership issues took place as part of the new strategic direction, during the subsequent APRC meeting in Kuala Lumpur. The APRC members were requested to send their comments on this important issue.

During the two APRC meetings held in 2011, Ms. Zariyah Anwar, former Chair of SC Malaysia and Vice Chair

of the EMC, gave an update on the key work streams undertaken by the EMC. She informed the meeting that the EMC Task Force on Corporate Bond Markets, co-chaired by SEBI, India and SC Malaysia, had published its report on *Development of Corporate Bond Markets in November 2011*.

Members were also updated about the review of the IOSCO Methodology for assessing the level of Implementation of IOSCO Principles of Securities Regulation. The updates were provided by Mr. Amarjeet Singh of SEBI, India who was Vice Chair of the IOSCO Implementation Task Force (ITF). The comprehensively revised Methodology was approved by the Executive Committee at its meeting in September 2011. Between Cape Town (April 2011) and the approval of the Methodology in September 2011, the ITF undertook extensive consultation with Regional Committees, Standing Committees and Task Forces on the final review proposals for the Methodology.

As APRC Chair, I also encouraged members to become signatories to the IOSCO MMoU by the deadline of 1 Jan 2013 or to express their commitment to meet that goal, in compliance with the IOSCO Strategic Direction. At the end of December 2011, 16 member jurisdictions out of the 25 potential MMoU signatories in the APRC region were full signatories to the IOSCO MMoU, while eight members were listed on Appendix B. Only one jurisdiction has yet to apply to become a signatory. I wrote in November 2011 and then again in April 2012 to all Appendix B jurisdictions and the non applicant jurisdiction, encouraging them to move to full signatory status and to apply to join the MMoU, respectively.

During the APRC meeting held in Kuala Lumpur, I offered the services of the APRC Secretariat to co-ordinate development of training programs in the region based on the analysis of the comments from members regarding their



training needs and capacity to provide training in specific areas. In my capacity as Chair, I wrote letters to all APRC members in December 2011, in this regard. The APRC has also strongly encouraged members to host training programs / seminars to ensure jurisdictions engage more with each other and discuss the challenges and other issues facing the region. Based on the IOSCO General Secretariat's work on Educational and Training Needs Analysis, the APRC has developed training calendars for its members. The updated training calendars were presented for informative purposes to APRC members during their two meetings in 2011. Along with the APRC meeting held in Kuala Lumpur, SC Malaysia hosted an IOSCO Seminar Training Program on 28-29 November 2011, which was attended by participants from many jurisdictions in the Asian Pacific region.

#### **Specific regional issues faced by APRC's members during 2011**

In order to discuss the specific issues faced by members in the region, APRC structured its meeting agenda for 2011 to accommodate sessions dedicated to key international developments and their impact on the Asia Pacific

region. Presentations were made by individual jurisdictions followed by open discussions on specific regional issues. Besides, a half day seminar consisting of three panel discussions on regional issues was organized on the day after the APRC meeting held in Kuala Lumpur in December 2011. In addition to the APRC members, the seminar was attended by market participants from the region.

#### **III. Future Planned Activities**

In order to strengthen enforcement capacity in the region, the APRC at its meeting on 15 May in Beijing proposed holding a standing Enforcement Directors Conference along with the future APRC meetings. The conference will have case studies, presentations and sharing of experiences of actual enforcement cases. It is intended to encourage greater knowledge sharing and understanding of the nuances of recent cases of market manipulation, insider trading and other forms of market abuse. In addition, I have proposed another initiative to facilitate knowledge sharing among APRC members: information on the details of significant enforcement actions taken by APRC member jurisdictions should be made available through the IOSCO web site.



## Report from the Chair of the European Regional Committee

**Carlos Tavares**

> Chair of the ERC

Chair, Comissão do Mercado de Valores Mobiliários, Portugal

**The IOSCO European Regional Committee (ERC) is composed of 47 IOSCO members from the European region who discuss common topics of interest and consider issues under discussion in the leading IOSCO Committees. These activities were facilitated by my participation as the Chair of the ERC in the meetings of the Executive Committee and of the Technical Committee, both of which were subsumed into the new IOSCO Board in May 2012.**

Throughout 2011 the ERC held three meetings: in Cape Town (April 18), Lisbon (June 7) and Brussels (December 15). In the course of these meetings, and as per current practice, ERC members were provided with information on the activities of the Executive, Technical and Emerging Markets Committees, focusing on key projects and activities of IOSCO's Standing Committees and Task Forces, in accordance with their respective mandates. ERC members were additionally briefed on IOSCO's involvement in the activities of other international *fora*, namely the Financial Stability Board and the G20.

The ERC continued to engage in regular discussions on the IOSCO Strategic Direction Review 2010-2015, with emphasis on the review of IOSCO's Objectives and Principles, the implementation of the IOSCO MMoU (*IOSCO Multilateral Memorandum of Understanding Concerning Consultation, Cooperation, and the Exchange of Information*), and the new Committee Structure, which required merging IOSCO's policy and standard-setting work, including the activities of the regional committees. ERC members provided a coordinated response to IOSCO's consultation on the structure change, having also previously discussed and produced written contributions on membership issues and on the decision-making process of IOSCO bodies.

Regarding the implementation of the IOSCO MMoU, regular updates and initiatives were carried out, including an outreach to members of the ERC who had not yet become MMoU signatories and a formal request to these members to provide periodic progress reports to their respective Regional Committee that outline the latest status and progress of their MMoU application ahead of the "2013 deadline". By the end of 2011, 39 ERC members had become full signatories, while seven

members were listed on Appendix B and one member had not yet applied to the MMoU.

Over the past year, members continued to discuss topics of particular relevance to the European Region, namely financial sector prospects in European countries and the regulatory implications involved. During these discussions external experts were invited to provide their views. Discussions were also held on emerging risks and trends in members' financial markets, in addition to the regular exchange of information on relevant regulatory developments in the different jurisdictions.

Committee members also continued to be regularly informed of the activities of the European Securities and Markets Authority (ESMA) about which ESMA representatives were invited to provide feedback as well as of EU proposals to strengthen the European financial supervisory framework. Here the focus was on Credit Rating Agencies' Issues (ESMA Guidelines), EU rules for Alternative Investment Fund Managers (Directive), on the revision of the MiFID, and the proposed regulation on market abuse.

The ERC will continue to provide input to internal discussions on the IOSCO Strategic Direction, with a view to strengthening the role of the ERC in the discussion of policy issues. It will also endeavor to analyze and discuss financial regulatory developments and related financial market trends, with the aim of participating in a concerted IOSCO effort to identify and address potential systemic risks to the region and increase investor protection.





## Report from the Chair of the Inter-American Regional Committee

### Rosario Patrón

> Chair of the IARC, 2008-2012  
Head Securities Market and Pension Funds,  
Banco Central del Uruguay

**The Inter American Regional Committee of IOSCO (IARC) brings together jurisdictions of Latin America, the Caribbean and North America. Therefore, it cuts across a wide range of economies and markets. Some of them are developed economies; most of them are emerging economies. In spite of differences in cultural and sociological backgrounds, market size, sophistication and diversification, these jurisdictions share a history of doing business together and in the last years have managed to achieve common purposes around issues that are dear to the IOSCO community.**

Since our last Annual Report in June 2011, four IARC meetings took place. The first three meetings were hosted by the Central Bank of Curaçao and Sint Maarten (July 2011), the Superintendence of Securities Market of Peru (November 2011) and the National Securities Commission of Argentina (March 2012). The fourth meeting took place in May, during the IOSCO annual conference in Beijing.

### Sharing in IOSCO technical work

One of the main goals of the IARC is to keep regional jurisdictions well informed about all the activities in the IOSCO committees and task forces and to provide feedback to IOSCO about such matters. Regional members participating in IOSCO committees and taskforces report on the discussions and decisions of such diverse groups. As a consequence all IARC members are brought closer to IOSCO activities and all members profit from the technical work being done and contribute to it in the way they see fit, according to the characteristics of each market and the resources available to each regulator.

### Exchange of information and cooperation

Another of the IARC main objectives is to facilitate enhanced cross-border cooperation and exchange of information in a broad range of matters. Policies to cope with the aftermath of the international financial turmoil and important changes in regulation in the regional jurisdictions have continued to be fixed items of discussion in the IARC agenda, as countries have been actively introducing changes agreed at the level of the G20, FSB and IOSCO meetings. International cooperation in enforcement issues

was particularly present during the 2011-12 meetings, as jurisdictions shared their plans to comply with the IOSCO 2013 deadline for joining the MMoU.

### Regional interests

One of the most important and rewarding goals of the IARC is to identify common regional issues and interests that may be addressed through seminars, workshops and the development of technical work by regional working groups.

During this period the IARC Chair and Vice Chair have continued to be in close consultation with jurisdictions in the region to identify common interests and ensure that meetings revolve around topics that are useful to the membership.

Two important technical projects were completed:

- > The Working Group on Market Integration, led by the National Securities Commission of Panama, delivered the Final Report on *Integration Arrangements in the Americas*.
- > The Joint IAC/OECD Task Force on Corporate Governance, co-chaired by IARC Vice Chair (Quebec AMF) and an OECD representative, completed the mandate on *Misuse of Privileged Information in the Americas*, regulation and enforcement.

A new Working Group was set up to revisit the very important subject of SMEs access to securities market fi-



nance. In the late nineties, the IARC produced an impressive amount of work identifying the obstacles to SME access to the market, and a series of fora took place where direct contact with these companies was established. During the Curaçao meeting, in July 2011, the IARC decided to take a fresh look at this sector because in many jurisdictions in the region, SMEs continue to account for a large portion of GDP and employment, and the obstacles to finance their operations remain. This new Working Group is chaired by the Ontario Securities Commission and has already produced two reports. The final one is due in November 2012.

### Networking

Another important activity has been to keep close contact with other international organizations that have common

regional interests with IARC in order to share experiences and develop joint technical work and/or initiatives.

During 2011-12, these contacts have flourished and the following events took place:

- > The Ibero American Institute for Securities Markets (IIMV) was invited to participate in one of the IARC meetings to present the advances in IFRS implementation in Latin America. This work is complementary to the IOSCO EMC work and the IARC work on the subject, and efforts are being made to share each organization's results to facilitate IFRS implementation in the region.
- > The IARC meeting in November was organized back to back with the OECD Latin American Round Table on Corporate Governance. This is





the second time that the two organizations have come together to maximize the possibilities of discussing common issues. The OECD has invited the IARC to participate fully in a Latin American Round Table project on related party transactions. This is a subject on which some of the IARC jurisdictions are currently working to implement regulatory changes.

- > Finally, and perhaps most importantly, the IARC, through its sister organization the Council of Securities Regulators of the Americas (COSRA), has been in close contact with the Association of Bank Supervisors of the Americas (ASBA), the Association of Insurance Supervisors of the Americas (ASSAL) and the Inter American Association of Pension Funds Supervisors (AIOS), to explore the possibilities of helping each other in the pursuit of their respective goals. On March 2012, the first joint Seminar of Financial Regulators took place in Montevideo, with the participation of the members of COSRA (same membership as IARC), ASBA, ASSAL and AIOS, where important speakers from the financial regulatory world delivered key presentations, and a joint declaration was signed in favor of collaborating in the future to implement standards as well as to organize joint events and define areas for future joint work and research.

### Contribution to IOSCO restructuring

Organizational matters have taken up a fair amount of the IARC's time during this period. Successive consultation papers on membership and voting rights were the focus of lively exchanges of ideas, out of which a regional position was reached: Such a position was formally forwarded to the IOSCO Task Force on IOSCO Strategic Direction and emphasized by the IARC Chair at conference calls and meetings. The regional position basically supports changes to the IOSCO by-laws that would allow for fair and inclusive reassessment of some past resolutions.

Consultation papers on the new structure of IOSCO were also extensively discussed, the most important being the composition, name and internal organization of the IOSCO Committees, the composition of the IOSCO Interim Board and the role of the regional committees in the new structure.

The latter is an issue that was first aired at the Buenos Aires meeting in March 2012, and will probably be the subject of future discussions and the elaboration of a regional position.

During the Buenos Aires meeting, the IARC representatives to the new IOSCO Board were elected. Prior to the meeting, the IARC Chair proposed a very detailed elec-

toral procedure with the goal of ensuring that all geographical sub-regions would be represented in the IOSCO Board. The rationale of the proposal was the following: The Inter American region is not homogeneous. The members of the IARC belong to distinctly defined sub-regions with their own set of interests and needs. Such differences are the product of their current stage of market development as well as their past and present cultural, institutional and financial characteristics. The latter are closely correlated to geographical location. Thus, four sub-regions might be clearly identified: North America, The Caribbean, Central America and South America.

The proposal was refined with the concurrence of some of the regional members, through on-line consultation, and approved before the election took place. The procedure was successful in ensuring representation of North America, South America and the Caribbean on the IOSCO Board. Due to diverse reasons related to their domestic agendas, the Central American members of IARC declined to propose candidates in this election.

### Future work

The new IOSCO structure has given the regional committees more weight in the organization's decision making body. However, more work needs to be done to define with more precision the roles to be played by the regional committees and the ways in which the regional representatives will channel the opinions and needs of all the jurisdictions in each region into the IOSCO Board agenda. However, the proactive participation of regional members, particularly of the EM members, is a precondition for ensuring that the region's opinions and needs will be heard in the rest of the organization, thus contributing to its true inclusiveness.





## Report from the Chair of the Assessment Committee

**Steven Bardy**  
> Chair of the Assessment Committee

**Earlier this year the Assessment Committee (AC) was established by the Executive Committee as an initiative of IOSCO's 2010-2015 Strategic Direction Review.**

The responsibilities of the AC include developing and delivering programs to identify and assess implementation of IOSCO's Objectives and Principles of Securities Regulation (IOSCO Principles) and other standards and policies set out in IOSCO reports or resolutions approved by IOSCO (IOSCO Standards) across the IOSCO membership.

The AC is also responsible for maintaining the IOSCO Principles and Methodology through the Implementation Task Force Sub-Committee (ITFSC) which was established in the middle of this year.

### Our objectives

The objective for our programs is to encourage full, effective and consistent implementation of Principles and Standards across IOSCO membership. Hopefully, this will – in turn – contribute to:

- > Investor protection, fair and efficient markets and reducing systemic risk globally;
- > Reducing opportunities for regulatory arbitrage;
- > Reducing the costs of conducting business across borders; and
- > Improving regulatory capability.

### Activities of the AC

By undertaking reviews of implementation (harnessing IOSCO's expertise and that of its members), the AC will play a role in encouraging implementation of the IOSCO Principles and Standards. In doing so, it will contribute to meeting G20 calls for enhanced monitoring of implementation of financial sector reforms.

The three main activities of the Committee are:

- 1 The conduct of *Country Reviews* (for jurisdictions whose regulation of securities is not part of the International Monetary Fund or World Bank **Financial Sector Assessment Programs (FSAP)**).

These Reviews will involve reviewing Self Assessments prepared by IOSCO members about the implementation of the IOSCO Principles. The aim of these Reviews will be to evaluate the status of implementation of the IOSCO Principles and to recommend a road map to address any gaps in implementation;

- 2 The conduct of *Thematic Reviews* of particular IOSCO Principles and IOSCO Standards across IOSCO's membership.

The aim of these Reviews will be to provide a snap shot of implementation of IOSCO's Principles and Standards. This snapshot will assist in identifying gaps in implementation, differences in approach to implementation, examples of good practice and difficulties and issues experienced in implementation. If appropriate, Reviews will address identified gaps in implementation; and

- 3 Maintenance of the IOSCO Principles and Methodology through the ITFSC.

This work involves supporting users of the Methodology, updating the Methodology and assessing the need to update the IOSCO Principles. Jean-Paul Bureaud from the Ontario Securities Commission chairs the ITFSC and leads this work.

The AC's core responsibility is the conduct of Country Reviews and Thematic Reviews described above (collectively known as **Reviews**).

### The AC's 2012 activities

The AC met three times in the past year (in March, June and September) to discuss its work going forward.

In relation to the:

- > *Country Reviews Program*: the AC is developing its forward work plan. It will aim, in the first instance, to have started two reviews before the end of 2013. This year the AC has begun with possible candidates based on expressions of interest in the conduct of assisted self assessments by IOSCO.
- > *Thematic Reviews Program*: the AC is working on its first Thematic Review on the implementation of

IOSCO Principles 6 and 7 (which are about processes to monitor and manage systemic risk and reviewing the regulatory perimeter, respectively). The AC will aim to conduct at least two Thematic Reviews each year, and to have started three Reviews before the end of 2013. The AC has also consulted internally and with the Financial Stability Board Secretariat about priority projects, including potential reviews on assessing the implementation of over-the-counter derivative reforms.

- > *The ITFSC*: the ITFSC held its inaugural meeting in London in September 2012 to discuss its mandate and forward work program. Work going forward will include improving online accessibility to the Methodology and clarifying the purpose and usage of the eMethodology.

The AC and ITFSC will hold their next meetings in Auckland in January 2013.



# IOSCO Research

The Research Function of IOSCO was set up in 2010 under the Strategic Direction 2010-2015 to assist IOSCO in its efforts to identify, monitor and manage systemic risks. Since securities markets are characterized by rapid change and financial innovation, securities market regulators and IOSCO need to keep abreast of new products, business models, activities, participants and the potential systemic risks they may create. Research will help IOSCO focus its strategic policy agenda.



IOSCO's Research Function consists of two branches that work in close co-ordination. The Standing Committee on Risk and Research (SCRR), chaired by Mr Carlos Tavares, Chair of the Portuguese securities market regulator CMVM, is composed of senior research professionals from around 25 securities markets regulators, while the General Secretariat houses a small Research Department guided by Head of Research, Mr Werner Bijkerk.

In 2012, the *IOSCO Securities Market Risk Outlook 2012*, was produced by the Research Department and is the research function's flagship publication. It was the first of what is to be an annual series of publications that aims to identify and assess potential global systemic risks affecting securities markets. The Outlook is based on a survey of regulators (mainly the members of SCRR); securities market experts; academics and market participants for the identification of risks. It takes a global, forward-looking approach to exploring risks that could become systemic in nature. The IOSCO Securities Market Risk Outlook 2012 was published internally along with the Risk Outlook Survey Report. The next Risk Outlook is scheduled for publication in September 2013.

Additionally, the SCRR produced guidelines for the execution of impact assessments to accompany the important policy work of IOSCO. Also, it published a report on the functioning of CDS markets, fulfilling a specific request from of the G20 meeting of finance ministers.

In its capacity as global standard setter of securities market regulation, IOSCO supports the global risk identification and mitigation efforts by the G20, the Financial Stability Board (FSB), the International Monetary Fund

(IMF), and other global organizations that are tackling similar issues, but from different perspectives. Staff of the Research Department and the Chair of the SCRR provide regularly input about potential systemic risks from a securities market perspective at these fora. As input into the FSB's work on shadow banking, the Research Department issued a research note on Credit Hedge Funds. In the area of hedge funds in general, the research department conducted in May 2011 a data gathering exercise of the industry globally. The subsequent report fed into the FSB work on shadow banking at the request of the Task Force on Unregulated Entities (TFUE).

For the future, SCRR and the Research Department are working collaboratively on two projects that aim to better identify potential areas of risk buildup. The first, being a quantitative, data driven Risk Dashboard that provides empirical insight into global trends, risks and vulnerabilities in the financial markets. The dashboard is expected to be ready in 2013.

The other, a methodological framework that individual securities market regulators can implement to aid in identifying and monitoring systemic risk buildup. In a first step towards this methodology, the Research Department developed a working paper titled *Systemic Risk Identification System*, which is partly based on a literature review by the SCRR on indicators of systemic risk. This is an on-going project.

Ultimately, IOSCO's efforts towards identifying, monitoring and mitigating risks throughout the financial system should promote an appropriate degree of financial stability by curbing excessive risk taking, improving investor protection and facilitating capital formation.

# IOSCO's Education and Training Program

IOSCO is in a unique position to shape the education and training landscape for securities regulators around the globe. Through its Education and Training (E&T) Program, IOSCO provides a valuable service by educating its members on IOSCO Principles and other matters of regulatory interest. By leveraging IOSCO internal expertise and partnering with IOSCO members and world-class solution providers, IOSCO seeks to increase awareness and further the regulatory goals of IOSCO, keep members informed of relevant IOSCO actions, and help educate and train regulators, and thus build regulatory capacity.

## IOSCO E&T Activities 2011-2012

### IOSCO Seminar Training Program

The 2011 IOSCO Seminar Training Program (STP) was held from 25 to 28 October in Madrid and covered the subject of "Investor Protection: The Latest Developments in Research, Investor Education, and the New IOSCO Principles". The program agenda and topics were decided on the basis of the responses received from our members in the IOSCO Education and Training Survey (Survey) undertaken in 2011. This intense four-day course examined the emerging issues and challenges that regulators face in providing investor protection. In particular, the course examined new regulatory research and its findings, and new IOSCO Principles. The event was attended by some 60 members from 36 different jurisdictions. It received outstanding feedback and evaluations.

Building on the success of the annual STP, IOSCO organized similar mobile training seminars in the different regions, using the same broad format, theme and materials. These seminars were held in 2011 and 2012 in the Inter-American, Africa / Middle-East, Asia-Pacific, and European Regions, and dealt with the subject of "Understanding New Financial Products and the Regulatory Implications of those Products". All of the Mobile STPs received very good feedback from participants.

On 9 and 10 March 2011 the first Inter-American Mobile STP was held in the offices of the Superintendencia General de Valores (SUGIVAL) in San José, Costa Rica. Some 60 participants from 12 different jurisdictions attended this seminar, which enabled IOSCO to reach out to a greater number of members from the Inter-American Region.

The Conseil déontologique des valeurs mobilières (CDVM) of Morocco hosted the first Africa / Middle-East Mobile

STP from 8 to 10 June 2011 in Marrakesh on the same topic. The event was attended by some 50 participants from 14 different jurisdictions. This program received local coverage in the media.

Following the success of the first Asia-Pacific Mobile STP hosted by the Financial Supervisory Commission of Chinese Taipei in June 2010, the Securities Commission of Malaysia hosted on 29 and 30 November 2011 the second Asia-Pacific Mobile STP. While using the same topic, the seminar agenda was tailored to meet the specificities of the APAC region. The seminar was attended by 58 participants from 12 different jurisdictions.

Following the success of the first European Mobile STP, hosted by the Capital Markets Board of Turkey in May 2010, the Cyprus Securities and Exchange Commission hosted the second European Mobile STP in Nicosia, Cyprus on 22-24 February 2012. This seminar on "New Financial Products: Their Regulatory Challenges and IOSCO's Response" was based upon the last two Seminar Training Programs in Madrid. More than 70 participants from 21 different jurisdictions attended the seminar.

The Securities and Commodities Authority of the United Arab Emirates will host the second Africa / Middle-East Mobile STP, from 10-12 December 2012. The program will be based largely on the 2012 STP entitled "Corporate Governance Issues Related to Securities Firms and Sanctions for Market Abuse" that is scheduled to be held at the IOSCO General Secretariat in Madrid from 23-26 October 2012.

While the mobile STPs are based on the STP held annually in Madrid, IOSCO staff work closely with the host jurisdictions to ensure the program is tailored to the specific needs of each region. Regional speakers

participate in the mobile STPs, along with the speakers from the annual STP and other new speakers. Consequently, IOSCO has been building a speaker data base that continues to enhance its education and training capabilities. We also recognize the significant contributions being made by not only the host jurisdictions, but also by the IOSCO members who are providing experts to speak at these important STP programs.

theme of the conference, which was hosted by the Korea Financial Investment Association (KOFIA), was “Implementing the Financial Capability and Investor Education Agenda: Protecting Investors in a Dynamic Environment”. The conference was composed of different panels, breakout sessions, and practical workshops covering themes such as “Working Together to Organize, Develop and Implement an Ongoing National



### **Seminar on Trading Book Issues and Market Infrastructure: An Event jointly organized by IOSCO and the Financial Stability Institute**

The sixth edition of the joint IOSCO and FSI seminar took place at the IOSCO headquarters in Madrid from 16-18 November 2011. The Financial Stability Institute or FSI is the training arm of the Bank for International Settlements, and this joint seminar has proved successful in examining some cross-sectoral issues. The seminar focused on Trading Book Issues and Market Infrastructure: the first part focused on “CPPSS/IOSCO Financial Market Infrastructure Principles”, the second part on “Market Risk Framework and Counterparty Credit Risk”, and the third part on “Market Developments”. The seminar was attended by over 70 bank supervisors and securities regulators from 45 different jurisdictions.

Entitled “Trading Book Issues, Market Infrastructure, and The Culture of Compliance”, the seventh edition of the joint IOSCO and FSI seminar will be held in Basel, Switzerland, from 28-30 November 2012.

### **The IOSCO & IFIE Investor Education Conference**

The fourth joint IOSCO-International Forum for Investor Education (IFIE) Investor Education Conference was held in Seoul, Korea, from 20-22 May 2012. The

Strategy for Financial Capability and Investor Literacy”, “Elements That Create Effective Financial Capability and Investor Literacy Programs – Overcoming Barriers to Achieve Success”, “Emerging Challenges in Financial Capability and Investor Literacy around the Globe”, and “How Do You Determine If an Investor Education Program is a Success? Looking for Quantitative Measurements and Statistically Reliable Data”.

### **IOSCO SROCC Training Seminar**

Following the three successful training seminars that took place in Washington, DC (December 2008), Reading, UK (January 2010), and Rio de Janeiro (November 2010), the Self Regulatory Organizations Consultative Committee (SROCC) conducted a three-day training seminar from 1 to 3 November 2011 in Taipei, Chinese Taipei. In addition, the SROCC held its mid-year meeting on 31 October preceding the seminar.

The seminar was jointly hosted by the Financial Supervisory Commission, Chinese Taipei, the Taiwan Stock Exchange (TWSE), IOSCO's Emerging Markets Committee (EMC), the Financial Industry Regulatory Authority (FINRA), and the Japan Securities Dealers Association (JSDA). The program covered issues relating to enforcement of regulations, management of conflicts of interest, risk management and internal control of market



intermediaries, as well as principles for issuers on disclosure and transparency.

The 2012 IOSCO SROCC Training Seminar will take place in Istanbul, Turkey, from 7-9 November 2012.

### EMC Training

Under the auspices of the Emerging Markets Committee (EMC), a Risk-Based Supervision Workshop for securities regulators has been developed with technical support from the International Monetary Fund (IMF) and the Financial Industry Regulatory Authority (FINRA), which was successfully delivered in the Inter-American region (Costa Rica) earlier in 2010, and in the Africa / Middle-East region (Uganda) in October 2011. The workshop is designed for staff with responsibilities on supervision of securities firms and products (brokerage firms, fund managers).

The Risk-Based Supervision Workshop that was held in Kampala, Uganda from 11 to 14 October 2011, was co-hosted by the Capital Markets Authorities of Uganda and Kenya. The Workshop was facilitated by senior officials from FINRA of the USA, the IMF, the Netherlands Authority for Financial Markets, the Securities and Exchange Commission of Nigeria, the Capital Markets Authority of Uganda, as well as the IOSCO General Secretariat. The Workshop was attended by 34 participants from 11 different jurisdictions.

During the 2011 EMC Conference in the Dominican Republic from 17 to 19 October 2011, four Market Development Workshops were held on the implementation and practical application of the new IOSCO Principles and Methodology; the effective regulation and oversight of financial markets infrastructures; development of an investor base in emerging markets; and systemic risk in the emerging markets. Following their success, two more Market Development Workshops were organized during the Annual Conference in Beijing, China, on 13 May 2012. The workshops, which were open to all IOSCO members, focused on developing corporate bond markets and developing the institutional investor base, and were attended by nearly 100 participants. The next workshops will be held during the 2012 EMC Conference of 19 to 21 November 2012 in Chile.

On 20 October 2011, the EMC together with the Toronto Centre organized in Toronto, Canada, a Seminar on Compliance with IOSCO Information Sharing: Admission to the MMoU.

### Investor Education

Due to the growing interest shown by IOSCO members in investor education, the Education and Training team is considering which programs and/or materials IOSCO might make available to meet this demand. The Education and

Training team undertook an analysis of members' current investor education offerings on their websites.

Specifically, in September 2011, IOSCO staff completed a four-month study of the investor education materials and offerings on the websites of IOSCO members. This study examined 200 websites of the 199 IOSCO members and resulted in a preliminary report of 772 pages. Out of this detailed report a summary report of 20 pages was prepared and distributed in December 2011 to IOSCO members for their feedback, along with a short five-question survey on investor education. After consultation, the responses were incorporated into a final report published internally in May 2012.

The following are some key objective findings with respect to the investor education materials found on IOSCO members' websites:

- > 53% (106) have an investor education website or a segment of the website specifically addressing investor education issues. 37% (73) have a stated goal or mission with respect to investor education, and 30% (59) have stated institutional support for investor education;
- > 70% (139) have basic investor education materials, and 73% (145) offer some form of unique resources for investors. 42% (83) have advanced investor education materials and 53% (105) discuss different types of investments. 30% (59) offer tools and calculators, and 46% (92) discuss some of the risk and rewards of investing;
- > 53% (106) offer some type of scam/fraud alerts, but that number increases to 65% (75) among ordinary members; and
- > 34% (67) offer some sort of live or classroom instruction.

At the 26<sup>th</sup> IOSCO AMERC (Africa/Middle East Regional Committee) meeting held from 9 to 11 February 2011 in Mauritius, a Workshop on "Handling Investor Complaints in Emerging Markets and Investor Education" was held on 11 February 2011. This seminar was attended by over 50 participants from six different jurisdictions.

On 3 to 4 February 2012 the OECD and SEBI organized jointly an International Conference on Investor Education in Goa, India. The Secretariat presented IOSCO's work on investor education, and in particular on what IOSCO members are offering with respect to investor education.

As part of the 2012 IOSCO AMERC meeting, an IOSCO Training Session on Investor Education was organized on 24 February 2012 in Mombasa, Kenya. Speakers from the IOSCO General Secretariat, the CMA Uganda, the SEC Ghana, and the First Bank of Nigeria Capital spoke on the topic of investor education.

## Survey Analysis

In 2011, IOSCO carried out an online survey on E & T among all IOSCO members as a follow up to a similar survey in 2009. The Survey supports and confirms the very positive evaluations received on IOSCO's E&T program. For example, the survey reflects strong agreement that E&T programs provide an international regulatory perspective, and bring attendees up to date regarding regulatory matters. In addition, attendees strongly agree that attending such events and programs "will help me in my regulatory responsibilities".

The Survey offered 53 different topics concerning securities regulation and allowed respondents to indicate their level of interest in each topic - using a scale of 1-7 with 7 indicating "very interested". The following topics received the strongest support\* according to the 2011 Survey:

- > Market Manipulation - 78%;
- > Insider Trading Investigations - 76%;
- > Investor Protection - 73%;
- > Conducting Regulatory Investigations - 73%;
- > Going Forward; Regulation and Supervision - 70%;
- > Insider Trading (Litigation) - 66%;
- > Inspections - 64%;
- > Risk Management - 63%;
- > Helping Investors Avoid Fraud - 62%; and
- > Investor Education - 61%.

Several conclusions regarding the direction of IOSCO E&T can be drawn from this comparative data:

1. The offences of market manipulation and insider trading (and the litigation of insider trading cases) continue to be topics of much interest, both topics were covered in the 2009 STP – but there is still much more to cover;
2. Investor protection and the related topics of investor education and helping investors avoid fraud have become of even greater interest. Three of the top ten topics in 2011 related to investor education and protection;
3. Topics relating to inspections and oversight continue to be of interest. Especially topics relating to "Conducting Regulatory Investigations", "Going Forward: Regulation and Supervision", "Inspections", and "Risk Management"; and
4. There seems to be somewhat less interest in topics related to products and instruments and the global financial crisis, both of these areas were covered in the 2010 STP and the recent mobile STPs.

Regarding IOSCO's Principles, these categories received the strongest support\* according to the 2011 Survey:

- > Enforcement (Principles 10-12) - 69%;
- > Secondary Markets (Principles 33-38) - 68%;
- > Market Intermediaries (Principles 29-32) - 67%;
- > Cooperation in Regulation (Principles 13-15) - 65%;
- > The Regulator (Principles 1-8) - 59%;
- > Collective Investment Schemes (Principles 24-28) - 58%;
- > Auditors, Credit Rating Agencies and Other Information Providers (Principles 19-23) - 53%;
- > Issuers (Principles 16 -18) - 49%; and
- > Self-Regulation (Principle 9) - 44%.

Finally, there continues to be a strong expression of support among members for an IOSCO offered and sponsored "Certificate Program." In both 2011 and in 2009, a full 80% of the respondents indicated programs that offer a certificate are very or somewhat important. In 2011, 79% of the respondents indicated they would "like to see IOSCO offer a formalized certificate program for regulators" versus 76% in 2009.

## IOSCO Foundation Proposal: Education and Training Pillar

The proposal to create an IOSCO Foundation calls for the project to rest on three pillars: technical assistance, education and training, and research. As part of this proposal, IOSCO E&T is planning to expand the education and training opportunities available to IOSCO members. With additional funding, IOSCO will be able to broaden the offer of E&T programs for securities regulators. In addition to increasing the quantity and quality of current E&T seminars and events, the objective will be to develop and launch the following new training program that include but are not limited to the following:

- > Investor Protection and Education;
- > International Exchange Program for Securities Regulators;
- > Global Certificate Program for Securities Regulators; and
- > Enhanced Education and Training.

It also will be better placed to disseminate E&T programs and materials through video streaming and developing an electronic library of top education and training materials, modules and programs. This library will expand the reach and impact of IOSCO's E&T efforts, and will particularly benefit emerging markets members.

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\*Strongest support is defined as the total percentage of respondents who marked the topic as a "7" or a "6" on a 7 point scale with 7 reflecting the highest level of interest.

# General Information

The International Organization of Securities Commissions (IOSCO) is an international association of securities regulators that was formed in 1983. Its General Secretariat is based in Madrid, Spain.

## The objectives of IOSCO's members are:

- > to cooperate together to promote high standards of regulation in order to maintain just, efficient and sound markets;
- > to exchange information on their respective experiences in order to promote the development of domestic markets;
- > to unite their efforts to establish standards and an effective surveillance of international securities transactions; and
- > to provide mutual assistance to promote the integrity of the markets by a rigorous application of the standards and by effective enforcement against offenses.

## Structure of IOSCO

The Presidents Committee, which meets once a year during the Annual Conference, is attended by ordinary and associate members, as well as by affiliate members in some specific cases.

Until May 2012, the Executive Committee acted as the executive body of the organization and was composed of the following 19 members:

- > the Chairs of the Technical and Emerging Markets Committees;
- > the Chairs of the four Regional Committees – Africa/Middle-East Regional Committee; the Asia-Pacific Regional Committee; the European Regional Committee and the Inter-American Regional Committee;
- > one ordinary member elected by each Regional Committee from among the ordinary members of that region; and
- > nine ordinary members elected by the Presidents Committee.

The Executive Committee met periodically during the 12 months to May 2012 and made all decisions and took all measures in support of achieving IOSCO's objectives.

Until May 2012, The Executive Committee had two specialized working committees, the Technical Committee and the Emerging Market Committee. The Technical Committee was made up of 18 agencies that regulate some of the world's larger, more developed and internationalized markets. Its objective was to review major regulatory issues related to international securities and futures transactions and to coordinate practical responses to these concerns.

At its Annual Conference in May 2012, IOSCO constituted a new Board that absorbed the functions of the Executive Committee, the Technical Committee and the Emerging Markets Committee Advisory Board. The Emerging Market Committee (EMC) will continue as a separate body for the present.

By commissioning a single integrated body to take on the governance, standard-setting and development functions of the organization, IOSCO is seeking to be more effective and efficient in achieving its objectives and conveying its messages. A streamlined governance structure and decision-making process will help position IOSCO for a larger role in shaping the global framework for securities market regulation.

The new Board is composed of 32 members who will serve a two-year term to 2014. Members include all former Technical Committee members, representatives from each of IOSCO's four regional Committees and the Chair and Vice Chair of the Emerging Markets Committee who together will ensure an appropriate balance and mix of members.

The criteria for membership of the Board will be reviewed with a view to ensuring a permanent structure is in place by IOSCO's Annual Meeting in Rio de Janeiro in September 2014. An Emerging Market Committee Task Force was formed during the Annual Conference to define the role of the future Emerging Markets Committee within the new IOSCO structure.

Masamichi Kono, the Vice Commissioner for International Affairs of the Financial Services Agency (FSA) of Japan, was appointed Chair of the Board until March 2013, when he will be succeeded by Greg Medcraft, the Chair of the Australian Securities & Investment Commission (ASIC). It was agreed that this transition would take place at the Board meeting in Sydney in March 2013, so that Mr. Medcraft would assume the position of Chair from the end of that meeting until the meeting of the Board at the IOSCO Annual Conference in September 2014.

The Emerging Markets Committee (EMC) continues to promote the development and improved efficiency of emerging securities and futures markets by establishing principles and minimum standards, preparing training programs for members' staff and facilitating the exchange of information as well as the transfer of technology and expertise. EMC members account for 80% of IOSCO membership and include some of the world's fastest growing economies. With ten of its member countries forming part of the G20, the

Emerging Market Committee is playing an increasingly important role within IOSCO.

IOSCO also has four Regional Committees, which meet to discuss problems specific to their respective regions and jurisdictions:

Africa/Middle-East Regional Committee;  
Asia-Pacific Regional Committee;  
European Regional Committee; and  
Inter-American Regional Committee.

Self-Regulatory Organizations (SROs), who are affiliate members of IOSCO, are members of the SRO Consultative Committee. IOSCO recognizes the importance of maintaining a close dialogue with the SROs and the international organizations that make up its associate and affiliate membership, and of ensuring that their input into IOSCO's policy development work is sought and encouraged.

### Annual Conferences

IOSCO's members meet every year at its Annual Conference to discuss important issues related to global

securities markets regulation. Event and registration information can be found at [www.iosco.org](http://www.iosco.org).

## Membership Categories and Criteria

### Categories

IOSCO has three categories of membership that are assigned according to the different approaches to securities market regulation. This structure enables all members to participate in IOSCO's debate on securities market issues.

The three categories are:

- > Ordinary;
- > Associate; and
- > Affiliate.

The annual membership fee for all categories was €15,000 for the year 2011.

The annual membership fee from 2012 onwards is as shown in the following chart:

Annual financial contribution structure in Euros from 2012:

GDP1	NATIONAL PER CAPITA INCOME <sup>1</sup>		
	1. LOW INCOME	2. MIDDLE INCOME	3. HIGH INCOME
A. LOW GDP	€ 12,500	€ 15,000	€ 16,000
B. MEDIUM GDP	€ 15,000	€ 16,000	€ 21,000
C. HIGH GDP	€ 16,000	€ 21,000	€ 30,000

<sup>1</sup> The categorization of jurisdictions will remain unchanged through the life of this Strategic Direction (2012-2015)

### Ordinary

This category is open to a securities commission, or a similar government or statutory regulatory body that has primary responsibility for securities regulation in its jurisdiction.

If there is no governmental, or statutory, regulatory body in a jurisdiction then a self-regulatory body, such as a stock exchange, in that jurisdiction is eligible for ordinary membership of IOSCO. However, the ordinary membership of a self-regulatory body admitted to IOSCO will lapse if a governmental regulatory body from the same jurisdiction becomes the ordinary member for that jurisdiction.

Ordinary members each have one vote in the Presidents Committee, which meets yearly at the Annual Conference.

### Associate

The following bodies can apply to become associate members of the organization:

1. a public regulatory body with jurisdiction in the subdivisions of a jurisdiction if the national regulatory body is already an ordinary member; and
2. any other eligible body with an appropriate responsibility for securities regulation.
3. from May 2012, any supranational body with appropriate responsibility for securities regulation.

## Affiliate

A self-regulatory body (SRO), or an international body, with a mission related to either the development or the regulation of securities regulation is eligible for this category of membership. SROs affiliate members compose the SRO Consultative Committees.

Since May 2012, affiliate members may attend the Presidents Committee meeting to hear detailed reports on the work and key developments of IOSCO, although they are not entitled to vote.

## Previous Annual Conferences

<b>Caracas</b> , Venezuela	September 1974*
<b>Lima</b> , Peru	January 1976 *
<b>Buenos Aires</b> , Argentina	November 1977*
<b>Queretaro</b> , Mexico	November 1978*
<b>Rio de Janeiro</b> , Brazil	November 1979*
<b>Montreal</b> , Quebec	September 1980*
<b>Washington, D.C.</b> , United States of America	May 1982*
<b>Quito</b> , Ecuador	April 1983
<b>Toronto</b> , Ontario	August 1984
<b>Cartagena</b> , Colombia	June 1985
<b>Paris</b> , France	July 1986
<b>Rio de Janeiro</b> , Brazil	September 1987
<b>Melbourne</b> , Australia	November 1988
<b>Venice</b> , Italy	September 1989

<b>Santiago</b> , Chile	November 1990
<b>Washington, D.C.</b> , United States of America	September 1991
<b>London</b> , United Kingdom	October 1992
<b>Mexico City</b> , Mexico	October 1993
<b>Tokyo</b> , Japan	October 1994
<b>Paris</b> , France	July 1995
<b>Montreal</b> , Quebec	September 1996
<b>Taipei</b> , Chinese Taipei	November 1997
<b>Nairobi</b> , Kenya	September 1998
<b>Lisbon</b> , Portugal	May 1999
<b>Sydney</b> , Australia	May 2000
<b>Stockholm</b> , Sweden	June 2001
<b>Istanbul</b> , Turkey	May 2002
<b>Seoul</b> , Korea	May 2003
<b>Amman</b> , Jordan	May 2004
<b>Colombo</b> , Sri Lanka	April 2005
<b>Hong Kong</b> , China	June 2006
<b>Mumbai</b> , India	May 2007
<b>Paris</b> , France	May 2008
<b>Tel Aviv</b> , Israel	June 2009
<b>Montreal</b> , Quebec	June 2010
<b>Cape Town</b> , South Africa	April 2011
<b>Beijing</b> , China	May 2012
<b>Luxembourg</b>	May 2013

\* Conferences of the Inter-American Conference of Securities Commissions, the forerunner of IOSCO.



## Contact Details

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Independent Auditors' Report on the Financial Statements

To the Members of the  
International Organization of Securities Commissions (IOSCO)

We have audited the accompanying financial statements of the International Organization of Securities Commissions (hereinafter the "Organization"), which comprise the statement of financial position as at 31 December 2011, and the statement of comprehensive income, the statement of changes in members' funds and the statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amount and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risks assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the International Organization of Securities Commissions (IOSCO) as at 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

DELOITTE, S.L.



Rodrigo Díaz  
Madrid, April 26, 2012

# Financial Statements

## STATEMENT OF COMPREHENSIVE INCOME

Year ended December 31, 2011

Notes 1 and 2

	2011	2010
<b>REVENUE</b>		
Contributions from members (Note 3)	2,638,863	1,873,049
Annual conferences (Note 3)	120,000	120,000
Exchange gain	-	756
Other (Note 3)	593	19,044
<b>Total revenue</b>	<b>2,759,456</b>	<b>2,012,849</b>
<b>EXPENSES</b>		
Salaries and employee benefits (Note 4)	1,552,354	1,403,449
Rental and maintenance (Note 12)	116,883	82,413
Travelling	354,712	283,233
Office supplies	34,341	26,549
Organization and follow up of meetings	61,486	63,885
Telecommunications	102,682	89,406
Delivery and communication	12,748	9,423
Printing and Annual Report	28,429	20,591
Computer	135,783	134,294
Professional fees	47,262	38,624
Educational programs	95,030	80,984
Miscellaneous	70,701	51,473
Exchange loss	1,908	-
Depreciation of capital assets (Note 6)	37,741	37,532
<b>Total expenses</b>	<b>2,652,060</b>	<b>2,321,856</b>
<b>Excess of revenue over expenses before tax (expenses over revenue)</b>	<b>107,396</b>	<b>(309,007)</b>
Taxation (note 10)	-	-
<b>Excess of revenue over expenses net of tax (expenses over revenue)</b>	<b>107,396</b>	<b>(309,007)</b>
Other comprehensive income net of tax	-	-
<b>Total comprehensive income for the year net of tax (in euros)</b>	<b>107,396</b>	<b>(309,007)</b>

The accompanying notes are an integral part of the financial statements.

# STATEMENT OF FINANCIAL POSITION

Year ended December 31, 2011

Notes 1 and 2

	2011	2010
<b>ASSETS</b>		
Current assets		
Cash (note 5)	1,197,472	1,249,953
Accounts receivable (note 7)	99,227	36,429
Prepaid expenses	36,552	26,982
	<b>1,333,251</b>	<b>1,313,364</b>
Capital assets (note 6)	80,430	67,073
<b>Total assets</b>	<b>1,413,681</b>	<b>1,380,437</b>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities (note 7)	206,916	327,323
Contributions received in advance (note 3)	81,255	35,000
<b>Total liabilities</b>	<b>288,171</b>	<b>362,323</b>
<b>MEMBERS' FUNDS</b>		
Excess of revenue over expenses net of tax for the period (expenses over revenue)	107,396	(309,007)
Unrestricted members' funds	1,018,114	1,327,121
<b>Total members' funds</b>	<b>1,125,510</b>	<b>1,018,114</b>
<b>Total liabilities and members' funds</b>	<b>1,413,681</b>	<b>1,380,437</b>
<b>(in euros)</b>		

The accompanying notes are an integral part of the financial statements.



# STATEMENT OF CHANGES IN NET ASSETS

Year ended December 31, 2011

Notes 1 and 2

		2011	2010
	UNRESTRICTED	TOTAL	TOTAL
Balance, beginning of year	1,018,114	1,018,114	1,327,121
Excess of revenue over expenses net of tax (expenses over revenue)	107,396	107,396	(309,007)
<b>Balance, end of year</b>	<b>1,125,510</b>	<b>1,125,510</b>	<b>1,018,114</b>

(in euros)

The accompanying notes are an integral part of the financial statements.

# STATEMENT OF CASH FLOWS

Year ended December 31, 2011

Notes 1 and 2

	2011	2010
<b>OPERATING ACTIVITIES</b>		
Total comprehensive income for the year net of tax	107,396	(309,007)
Depreciation of capital assets (note 6)	37,741	37,532
Decrease (increase) in working capital items (note 9)	(146,520)	21,896
<b>Net cash generated</b>	<b>(1,383)</b>	<b>(249,579)</b>
<b>INVESTING ACTIVITIES</b>		
Term deposits transactions	-	-
Capital expenditures (note 6)	(51,098)	(19,285)
<b>Net cash used</b>	<b>(51,098)</b>	<b>(19,285)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(52,481)</b>	<b>(268,864)</b>
Cash and cash equivalents, beginning of year	1,249,953	1,518,817
<b>Cash and cash equivalents, end of year</b>	<b>1,197,472</b>	<b>1,249,953</b>
<b>CASH AND CASH EQUIVALENTS</b>		
Cash (note 5)	1,197,472	1,249,953
<b>Total cash and cash equivalents</b>	<b>1,197,472</b>	<b>1,249,953</b>
<b>(in euros)</b>		

The accompanying notes are an integral part of the financial statements.

# 1 Governing Statutes and Purpose of the Organization

The non-profit organization IOSCO (hereinafter “the Organization”), incorporated under a private act in Canada (L.Q. 1987, Chapter 143) sanctioned by the Quebec National Assembly, is an association of securities regulatory organizations. During 2001 the Organization changed its domicile to Madrid (Spain). It is recognized by the Spanish Government by means of the Third Additional Disposition of Law 55/1999.

IOSCO is the international standard setter for securities regulation. Its current membership comprises regulatory bodies from over one hundred jurisdictions who have day-to-day responsibility for securities regulation and the administration of securities laws.

## 2 Accounting policies

### Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards.

The financial statements are prepared in Euros which is the organization’s functional currency.

These financial statements were authorised for issue by the Secretary General of the Organization on April 25, 2012.

### Measurement base

The financial statements have been prepared on an accrual basis with all assets and liabilities, other than financial instruments, valued at historical costs. Financial instruments are measured on a fair value basis.

### Accounting estimates

The preparation of these financial statements in conformity with International Financial Reporting Standards requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates are based on management’s best knowledge of current events and actions that the Organization may undertake in the future. Actual results may differ from these estimates.

### Revenue and cost recognition

Member contributions are deferred when prepaid and recognised as income only upon accrual and receipt. Revenue received in advance represents prepaid members’ contributions.

Operating costs are recognized as an expense when incurred.

### Cash and cash equivalents

The Organization’s policy is to present cash and cash temporary investments, which are readily convertible into cash and subject to an insignificant risk of change in value, having a term three months or less from the acquisition date, as cash and cash equivalents.

### Capital assets

Capital assets are recorded at cost less accumulated depreciation. Any impairment in the net recoverable amount as compared to the net carrying amount is recognized immediately.

Gains and losses on disposal are included in the Statement of Comprehensive Income.

Capital assets are depreciated over their estimated useful lives according to the following methods and annual rates:

	<b>Methods</b>	<b>Rates</b>
Furniture and fixtures	Straight-line	20%
Computer equipment		
Computers and Software	Straight-line	33%
Servers	Straight-line	25%

### Foreign currency translation

The Organization’s functional and presentational currency is Euros. Foreign currency transactions are accounted for in Euros at the rates of exchange prevailing at the transaction date. Exchange gains or losses on settlement of balances are recognized in the Statement of Comprehensive Incomes when they arise.

Monetary assets and liabilities denominated in foreign currencies are translated to Euros at the foreign exchange at the end of the reporting period. Foreign exchange differences arising on translation are included in the Statement of Comprehensive Income.

### 3 Revenue

Contributions from members include membership fees collected in the year, corresponding to contributions due for the reporting period and/or previous reporting periods and contributions from members applying for membership.

Annual conference revenue represents the contribution from the member hosting the Annual Conference.

Other revenue is comprised basically by interest income on short-term deposits and marginally by sales of IOSCO documents.

### 4 Secondment program

In 2011 the Organization had the benefit of seconded staff from the Financial Supervisory Service of Korea (FSS), the Portuguese Securities Market Commission (CMVM), the Financial Industry Regulatory Authority of the US (FINRA), the Romanian National Securities Commission (CNVM), the Capital Markets Board of Turkey (CMB), the Financial Services Agency of Japan (JFSA), the Ontario Securities Commission (OSC), the Israel Securities Authority (ISA) and the Spanish Comisión Nacional del Mercado de Valores (CNMV).

The normal mode of operation of the secondment program is for the Organization to enter into a trilateral agreement between the sponsoring member and the secondee, offering the secondee an employment contract in Spain.

Secondment program revenue includes contributions from members sponsoring staff to join the General Secretariat temporarily. These contributions generally cover a portion of the seconded staff's salary costs paid through the Organization. Revenue is recognized based on the terms, amounts and payment schedule determined by the Secondment agreement between the Organization and the sponsoring member. The amounts payable to the secondee as part of the respective employment contract are recognized and accrued as an expense. Any net differences between revenue and subsidized costs arising from social security adjustments are recognized in the income statement in the salaries heading.

	2011	2011
Revenue associated to the Secondment Program	348,392	185,849
Subsidized expenditure associated to the Secondment Program	347,097	197,274
Net amount recognized in the "Salaries and employee benefits" heading in the income statement	1,295	(11,425)

(in euros)

There is a minority of cases where, as distinct from the above trilateral agreement, the sponsoring member continues to take care directly of all the employment, administrative and financial requirements with regard to the secondee, where IOSCO does not have any direct formal employment link with the secondee and does not hold any financial obligation, revenue and the related expenditure has not been accrued. In order to enhance comparability, the amounts corresponding to the secondment program, both revenue and expenditure, have been removed from the Statement of Comprehensive Income.

### 5 Cash

There are no restrictions for the use of cash.

### 6 Capital Assets

	Furniture and fixtures	Computer equipment	2011 Total
At the lower of recoverable value and cost			
Balance, beginning of year	26,411	538,575	564,986
Additions	16,039	35,059	51,098
Disposals	-	-	-
Balance, end of year	42,450	573,634	616,084
Accumulated depreciation			
Balance, beginning of year	(15,080)	(482,833)	(497,913)
Depreciation	(6,754)	(30,987)	(37,741)
Disposals	-	-	-
Balance, end of year	(21,834)	(513,820)	(535,654)
<b>Net as at December 31, 2011</b>	<b>20,616</b>	<b>59,814</b>	<b>80,430</b>

(in euros)

	Furniture and fixtures	Computer equipment	2010 Total
At the lower of recoverable value and cost			
Balance, beginning of year	21,369	524,332	545,701
Additions	5,042	14,243	19,285
Disposals	-	-	-
Balance, end of year	26,411	538,575	564,986
Accumulated depreciation			
Balance, beginning of year	(11,000)	(449,381)	(460,381)
Depreciation	(4,080)	(33,452)	(37,532)
Disposals	-	-	-
Balance, end of year	(15,080)	(482,833)	(497,913)
<b>Net as at December 31, 2010</b>	<b>11,331</b>	<b>55,742</b>	<b>67,073</b>
<b>(in euros)</b>			

## 7 Accounts receivable and accounts payable and accrued liabilities

### a) Accounts receivable

	2011	2010
Secondment contributions	84,722	26,111
Other	14,505	10,318
<b>Total Accounts receivable</b>	<b>99,227</b>	<b>36,429</b>
<b>(in euros)</b>		

### b) Accounts payable and accrued liabilities

	2011	2010
Professional services	10,620	13,355
Occupancy	78,000	65,000
Spanish Taxes (employee's income tax withheld) and Social Security	56,098	45,228
Contractual staff commitments (*)	-	135,000
Other	62,198	68,740
<b>Total Accounts payable and accrued liabilities</b>	<b>206,916</b>	<b>327,323</b>
<b>(in euros)</b>		

(\*) Staff commitments accrued from 2008 and paid in 2011.

## 8 Financial Instruments

### Short-term financial instruments

Cash, term deposits, accounts receivable and accounts payable are financial instruments whose fair value approximates their carrying amount, given that they will mature in the short term and are not perceived to bear any significant credit risk.

## 9 Information Included in the Statement of Cash Flows

The increases (decreases) in working capital items are detailed as follows:

	2011	2010
Accounts receivable	62,798	19,276
Prepaid expenses	9,570	13,261
Accounts payable and accrued liabilities	120,407	(100,168)
Contributions received in advance	(46,255)	45,735
<b>Increases (decreases) in working capital</b>	<b>146,520</b>	<b>(21,896)</b>
<b>(in euros)</b>		

## 10 Taxation

On 29 December, 1999, the Spanish Parliament passed legislation (Law 55/1999), to exempt the Organization from Spanish income tax. On 23 November 2011, IOSCO signed a Headquarters Agreement with the Kingdom of Spain upgrading and improving the current legal and tax framework for IOSCO in Spain.

## 11 Government Assistance

As part of the localization agreement in Madrid, IOSCO receives from the Spanish Authorities the right to use the 12 Oquendo premises free of charge, exclusive of non-structural maintenance expenses (electricity, water, elevator maintenance, etc) up to a maximum of € 87,561 for the year 2011 (€ 85,414 for the year 2010). This amount is adjusted annually by the corresponding Consumer Price Index. The total for non-structural maintenance expenses has not yet exceeded the above mentioned cap.

The agreement between the Comisión Nacional del Mercado de Valores (CNMV) and IOSCO set out that the CNMV will be responsible for meeting the costs of security and maintenance of security systems in the IOSCO premises; insuring the premises; and municipal and local property taxes. These costs have been estimated at € 51,535 for 2011.

## 12 Rental and Maintenance

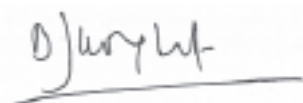
	2011	2010
Estimated Spanish Authorities' charges for non structural maintenance costs	78,000	65,000
Other external maintenance services	38,883	17,413
<b>Total rental and maintenance</b>	<b>116,883</b>	<b>82,413</b>

(in euros)

## 13 Subsequent Events

In the opinion of the management there are no significant events that need to be reported.

On behalf of the International Organization of Securities Commissions (IOSCO)



**David Wright**  
Secretary General



**International Organization  
of Securities Commissions**

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