Report from the IOSCO Secretary General

David Wright
> IOSCO Secretary General

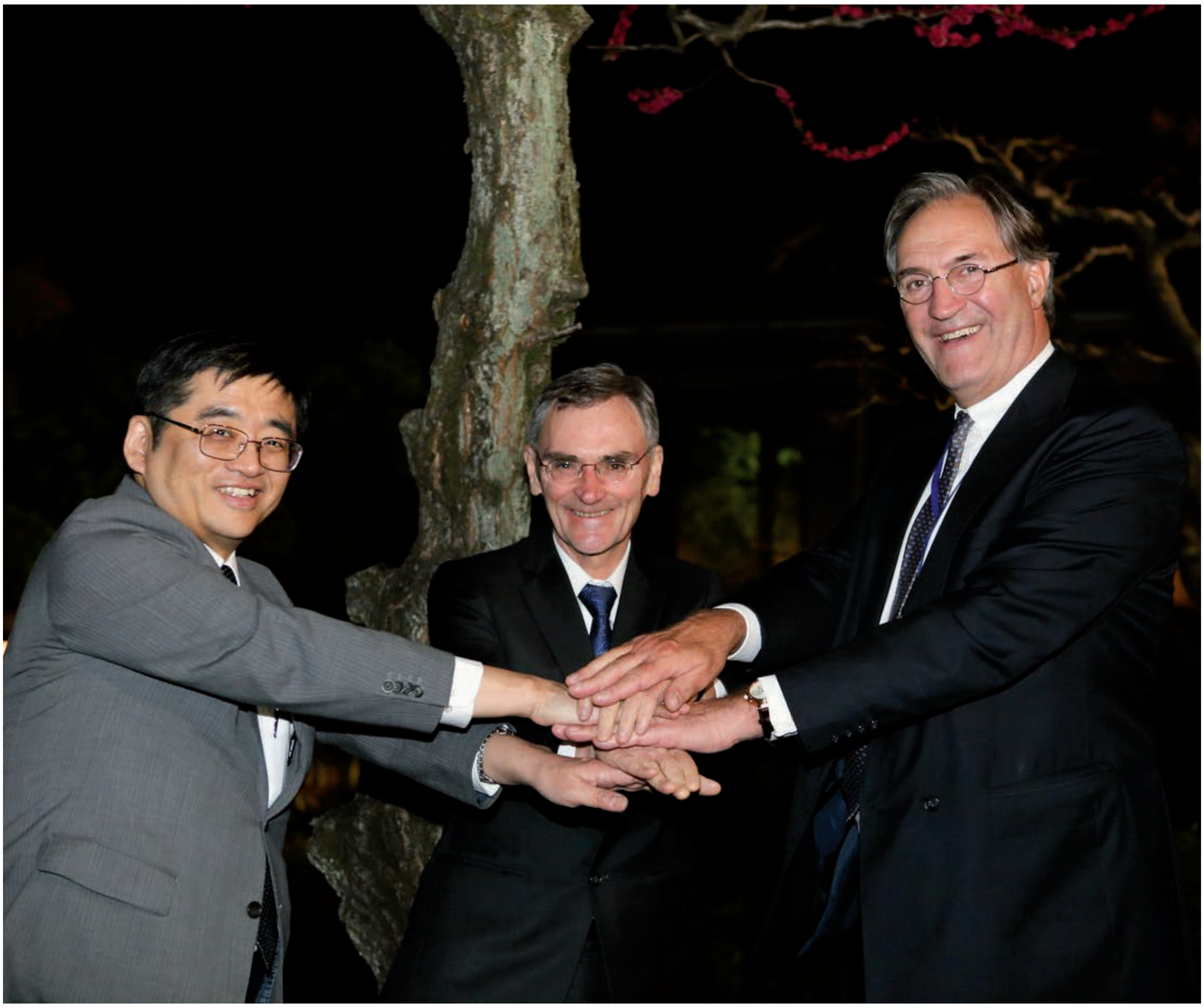
My last 15 months as IOSCO Secretary General have been especially busy. New subjects have surged to the top of the global agenda, including fresh bouts of severe market volatility; cybercrime; asset management issues linked to market liquidity; CCP resilience, recovery and resolution; margin requirements for OTC derivatives; wholesale market conduct, behavior, ethics and corporate governance; reviving sound securitization; SME and infrastructure financing; the new Enhanced Multilateral Memorandum of Understanding on cooperation and the exchange of information; and innovative financial technology (fintech), to name only a few. In all of these areas, IOSCO has a leading and ongoing role to play to shape good cooperative international policy outcomes and, indeed, must do so as global financial markets swing increasingly towards market-based financing instruments - the bread and butter of securities regulators.

In this context, it is crucial that IOSCO supports its Chair in insisting on strengthening its representation in the Financial Stability Board (FSB). Until recently, only one IOSCO member was present in the FSB's research committee (Standing Committee on Assessment of Vulnerabilities) and we remain manifestly underrepresented in the FSB's two other main committees - the policy committee (Standing Committee for Supervisory and Regulatory Cooperation) and the implementation body (Standing Committee on Standards Implementation). In addition, few emerging market securities regulators find their way regularly to the FSB tables. Only central bankers chair the FSB's main committees -- another source of imbalance. With persistence and determination we have at least managed representational parity and a co-Chair (Natasha Cazenave from the AMF France) in the crucial WS3 group preparing the asset management policy work. But there is more to do. The danger of these global representational imbalances is *global group think*, regulatory bias and a failure to consider deeply enough the wider market dimensions and spillovers of global financial reforms.

Happily, the last 15 months have been a far more productive period for IOSCO's capacity building efforts. I am pleased to report that we now have built and agreed a coherent nexus of programs that I believe over time will help spread the best regulatory practice to securities regulators around the world. What are they?

1. A global certificate program available to all IOSCO members and their staffs, drawn up in conjunction with the Program on International Financial Systems at Harvard Law School. The first such program is scheduled to start in 2016.

2. The first two detailed on-line training modules on risk based supervision and enforcement, including tests. These modules are available free to all IOSCO members in the members area of the IOSCO website. We will work on expanding the number of these modules in the future so that eventually all aspects of securities regulation are covered. Raluca Tircoci-Craciun of the IOSCO General Secretariat deserves enormous credit for shepherding this ambitious project from the drawing board to the computer screen and now truly underway.



3. The launching of IOSCO's regional hubs in 2016 with Board agreement that Malaysia will host the first hub, followed by Turkey and the United Arab Emirates. These hubs will support IOSCO's overall educational and training capacity and design custom-made programs in each region.

4. The IOSCO secondment register has been set up to facilitate personnel exchanges between IOSCO members, matching supply with demand. It should be used more.

5. The IOSCO Secretariat has widened the range of training opportunities for members, and an increasing number of members has benefitted from IOSCO training activities. In the 15 months to March 2016, some 970 people attended ten different courses, considerably more than in previous years. Each course is evaluated and the average level of appreciation in all cases has been very high. Cecile de Wit and Gary Tidwell deserve much praise, as do GEMC Chair Ranjit Ajit Singh and AMCC Chair José Carlos Doherty, whose respective training activities have increasingly gained importance for our membership.

Maintaining the quality of these capacity building programs over time will require on-going critical assessment, adaptability, forward thinking, sufficient resourcing and the support of members to provide interesting case material and top class presenters. In this regard, the APRC webinars on various aspects of securities regulation have proven to be a successful and innovative experiment.

The IOSCO 2020 strategy exercise was concluded at the very successful London Annual Conference hosted by the UK FCA in June 2015. It sets out the future resourcing and financing needs for IOSCO until 2020 and gives us important medium term financial stability and predictability, allowing us to strengthen our work in some areas such as for emerging market countries. Steven Bardy from ASIC, Tajinder Singh, Jonathan Bravo and Raluca Tircoci-Craciun from the IOSCO Secretariat worked tirelessly to achieve this outcome.

Looking ahead, I think there are a number of new and important subjects that IOSCO must prepare for. For example, I believe the *green financing* agenda is with us permanently (sustainability) and so issues like integrated reporting, the valuation of natural assets and enhanced disclosure will grow in importance. We need to occupy the ground and shape the outcomes.

Second, data quality and availability must improve. In most cases, data quality is poor, unharmonized, late and partial. How can effective regulatory policies be made in these suboptimal conditions? One unfortunate example is trade repositories, where the 29 existing trade repositories have data that are neither harmonized nor aggregated. But there are wider concerns and needs here such as being able to detect serious or systemic risk much more quickly - with the obvious correlative benefit of being able to understand much better the overall flows of the global financial system.

If we are honest, our overall level of macro- and micro-understanding of financial markets today is still far from satisfactory, in spite of the fact that we have lived through and experienced a massive, dangerous financial crisis in which the world could have lost as much as 25% of global gross domestic product. Progress on improving data has been totally insufficient but hope may be on the horizon. Could the new blockchain technologies perhaps help resolve these challenging data issues in the medium term? There are also other important dimensions to data issues such as data privacy made more prominent by a recent decision of the European Court of Justice to invalidate the EU-U.S. data-sharing scheme known as Safe Harbor, and the need for fair access to financial data to ensure open and competitive markets.

Third, on the issue of competition, do securities regulators work closely enough with the competition authorities to weed out illegal, anti-competitive market practice? Perhaps not enough. The recent Libor and Forex scandals should leave us with no sense of complacency.

Fourth, behavior and governance of financial firms continue to be an issue. One leading financial expert has commented that the biggest tail-risk in the financial system is people. Should we not be developing a range of structural and behavioral corporate indicators that could point to possible financial failures in the future? Our work on wholesale market conduct is of immense importance in this context. The type of individuals who run major firms and how they are managed really matters.

Fifth, forthright disclosure of the real costs of financial transactions and intermediation is an issue that calls for greater attention. Too often, these costs are camouflaged and obscured. Consumers should be told the truth; pricing should be 100% transparent, like buying provisions in a supermarket, and any mis-selling should result in the severest of penalties and, in the worst case, that should mean jail.

Finally, pulling all remaining non-MMoU IOSCO members into the fold to join the 109 authorities who had signed the MMoU by March 2016 would be truly an outstanding outcome. This is a remarkable IOSCO success story which will be developed further with the Enhanced MMoU in the future.

Let me conclude this contribution by thanking profoundly IOSCO Board Chair Greg Medcraft for his boundless energy, dedication and enthusiasm; our Vice Chairs Howard Wetston, Ranjit Anjit Singh and Ashley Alder, AMCC Chair José Carlos Doherty and all of IOSCO's regional, committee and task force chairs who have driven our organization forward. And, I would be remiss if I did not thank Masamichi Kono, my first IOSCO Chair, from whom I learnt a great deal.

I have been blessed by having a generous and thoughtful host authority, the Comision Nacional del Mercado de Valores of Spain, and on behalf of IOSCO I am deeply grateful to Elvira Rodriguez, its Chair. We also have excellent relations with our counterparts in the Basel Committee on Banking Supervision, the International Association of Insurance Supervisors, the Committee on Payments and Market Infrastructures, and the International Accounting Standards Board, and I have appreciated their strong support over the years.

And my last word is for the IOSCO Secretariat staff. They have all worked tirelessly and selflessly for IOSCO, and for me. We are now more international than ever before, with 22 nationalities represented and, as a result, are even more fit -for-purpose. I thank them all most sincerely, and especially my exceptional deputy, Tajinder Singh.

I now pass the torch to the new Secretary General, Paul Andrews, an outstanding person and internationalist, who with your help, I am sure, will take IOSCO to the next level. I leave many IOSCO friends behind all over the world whom I hope to see in the future because I intend to work further, in new domains, on strengthening international regulatory cooperation and integration in the years ahead.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