Activities of IOSCO's Policy Committees in the Year

The IOSCO Board reviews the regulatory issues facing international securities markets and coordinates practical responses to those concerns. The work is carried out by eight IOSCO policy committees, each one working in one of the following policy areas, under the guidance of the Board and supported by the General Secretariat:

> Issuer Accounting, Audit and Disclosure;
> Regulation of Secondary Markets;
> Regulation of Market Intermediaries:
> Enforcement and Exchange of Information;
> Investment Management;
> Credit Rating Agencies;
> Commodity Derivatives Markets; and
> Retail Investors

The Board also oversees the activities of the Growth and Emerging Markets (GEM) Committee. The GEM Committee 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.

In addition to the policy committees, several task forces were entrusted in 2015 with examining relevant developments in the financial markets. They included the following:

> The Board-level Task Force on Financial Benchmarks
> Task Force on OTC Derivatives Regulation (OTCDTF)
> Task Force on Cross-Border Regulation
> Working Group on Risk Mitigation Standards
> Audit Quality Task Force
> Task Force on Market Conduct

Committee on Issuer Accounting, Audit and Disclosure - C1

Committee Chair:
Julie A. Erhardt (US SEC)
Committee Vice Chair:
Patrick Parent (France AMF)

The Committee on Issuer Accounting, Audit and Disclosure (C1) is devoted to improving the development of accounting and auditing standards, and enhancing the quality and transparency of the disclosure and financial information that investors receive from listed companies. IOSCO considers the quality of disclosure and the accuracy, integrity and comparability of financial statements, and the transparency they provide, to be essential for protecting investors and thereby maintaining investor confidence in the public capital markets. Investor confidence also contributes to the long-term stability of the international financial system.

IOSCO recognizes that disclosure of reliable, timely information that is readily accessible contributes to liquid and efficient markets by enabling investors to make investment decisions based on material information. To advance this objective, Committee 1 develops international disclosure standards and principles that provide a framework for member jurisdictions seeking to establish or review their disclosure regimes for entities that issue securities. Committee 1 also monitors significant international developments related to disclosure in order to identify potential issues related to investor protection.

Committee 1 also monitors and supports the work of the international accounting standard-setting bodies. This involves monitoring the projects undertaken by the International Accounting Standards Board (IASB) of the International Financial Reporting Standards Foundation (the IFRS Foundation), observing the IFRS Interpretations Committee (IFRIC), and participating in the IFRS Advisory Council and other IASB working groups.

The IFRS Foundation is the legal entity under which the International Accounting Standards Board (IASB) operates. Its mission, through its IASB standard-setting body, is to develop International Financial Reporting Standards (IFRS) that bring transparency, accountability and efficiency to financial markets around the world. Committee 1 contributes to the standard-setting work of the IASB through its involvement in the IASB´s work streams and its comment letters on IASB proposals. Its aim is to provide the IASB with input that reflects the perspective of securities regulators. IOSCO also is a member of the Monitoring Board (MB) that oversees the IFRS Foundation. Committee 1 provided input in 2015 on numerous IASB proposals and the IFRS Foundation Trustees' Review of Structure and Effectiveness. These comment letters are available on the IOSCO website.

IOSCO believes that there is an important role to be played by a set of international auditing standards in contributing to global financial reporting and supporting investor confidence and decision making. To that end, Committee 1 monitors the activities of two of the International Federation of Accountant´s standard setting bodies: the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA) and participates in their respective Consultative Advisory Groups (CAGs). Committee 1 provided input in 2015 on several IAASB and IESBA proposals. These comment letters are also available on the IOSCO website.

In response to a string of corporate financial reporting scandals at the turn of the century, IOSCO became a founding member of the Monitoring Group (MG) of international organizations that is committed to advancing the public interest in areas related to international audit standard setting and audit quality. Committee 1 also represents IOSCO as an official observer at the International Forum of International Audit Regulators (IFIAR) Plenary meetings. In this capacity, Committee 1 provides updates to, and liaises with, IFIAR on relevant IOSCO work streams.

Other Activities in 2015

In September 2014, IOSCO issued a proposed *Statement on Non-GAAP Financial Measures,* which sets out IOSCO´s expectations for issuers with respect to their presentation of financial measures other than those prescribed by Generally Accepted Accounting Principles (GAAP). Non-GAAP financial measures can be useful to issuers and investors because they can provide additional insight into an issuer's financial performance, financial condition and/or cash flow. The use of non-GAAP financial measures also can provide issuers with flexibility in communicating useful, entity-specific information. The comments received were considered in 2015 and the final statement is expected to be published in the first half of 2016.

In November 2015, IOSCO published the final report *Transparency of Firms that Audit Public Companies.* The report addresses "audit firm transparency reporting" which considers the practices employed by audit firms to be transparent in their own reporting to investors and other stakeholders about the firm itself, notably, with respect to firm governance and elements of their system of quality control for their financial statement audits. Transparency reporting can foster internal introspection and discipline within audit firms

and may encourage audit firms to sharpen their focus on audit quality, which would be of benefit to investors and other stakeholders.

Committee 2 on Regulation of Secondary Markets - C2

Committee Chair:
Susanne Bergsträsser, (Germany BaFin)
Committee Vice Chair:
Tracey Stern, (Ontario OSC)

The Committee on Regulation of Secondary Markets (C2) looks at recent developments in the structure of global capital markets and financial market infrastructure, and analyzes how they contributed to, and are affected by, the financial crisis and other factors such as technological innovation.

Trading venues and technological disruption

In December 2015, Committee 2 issued a final report on *Mechanisms for Trading Venues to Effectively Manage Electronic Trading Risks and Plans for Business Continuity*. The report provides a comprehensive overview of the steps trading venues take to manage the risks associated with electronic trading and the ways they plan for and manage disruptions through business continuity plans (BCPs).

Based on the survey responses from trading venues and trading venue participants from more than 30 jurisdictions, the report makes recommendations and identifies sound practices to help regulators ensure that trading venues are able to manage effectively identified risks, such as those related to technology. It also proposes sound practices that should be considered by trading venues when developing and implementing risk mitigation mechanisms and business continuity plans aimed at safeguarding the integrity, resiliency and reliability of their critical systems.

The report forms part of IOSCO´s ongoing work on the impact of technology on markets. Although technological developments and electronic trading offer many benefits, recent incidents involving sudden selloffs, trading delays and glitches illustrate the risks associated with the markets' increasing reliance on technology. If problems arise, technological innovation can pose risks to the efficiency and integrity of markets and undermine the overall confidence in financial markets.

Published in conjunction with the report *Market Intermediary Business Continuity and Recovery Planning*, prepared by Committee 3 on Regulation of Market Intermediaries, the Committee 2 report seeks to enhance the ability of financial markets and intermediaries to manage risks, withstand catastrophic events and swiftly resume their services in the event of disruption.

Liquidity in global corporate bond markets

During the year, the committee also conducted further work on liquidity in global corporate bond markets. The key issues under consideration were:

> Whether bond market liquidity has decreased compared to historical norms in member jurisdictions and, if so, what the potential negative consequences are for fair and efficient markets, investor protection and financial stability.

> The potential causes for the perceived decrease in liquidity and whether a liquidity crisis will or will not develop and, if it will, the potential consequences.

> The view of the industry as to whether the markets will be able to solve any liquidity issue on their own, or whether it believes there is a role for regulatory intervention.

Committee 3 on Regulation of Market Intermediaries – C3

Committee Chair:
Stephen Po (Hong Kong SFC)
Committee Vice Chair:
Choi Kiyoung (Korea FSC/FSS)

Proposed Methodologies to identify systemically important non-bank financial entities

In 2015, IOSCO published jointly with the Financial Stability Board (FSB) a second consultation paper on a proposed assessment methodology for identifying global, non-bank non-insurance systemically important market intermediaries in the securities sector. As part of this project, Committee 3 worked on developing a methodology aimed at assessing the systemic significance of market intermediaries. (*See the section below on Committee 5 on Investment Management for full details*).

Global Prudential Standards in the Securities Sector

In February 2015, Committee 3 published a final report entitled *A Comparison and Analysis of Prudential Standards in the Securities Sector,* which provides a high level comparative analysis of the key prudential/capital frameworks for securities firms around the world.

IOSCO´s aim is to identify and then eliminate gaps and inconsistencies between prudential frameworks, thereby reducing regulatory arbitrage and competitive inequalities across jurisdictions and facilitating the convergence of prudential standards over the longer term.

The capital adequacy standards are designed to enable securities firms to absorb losses and wind down their businesses without generating losses for their customers or the customers of other broker-dealers and without disrupting the orderly functioning of the financial markets. The Committee 3 report forms part of a project of the Joint Forum-- comprising IOSCO, the Basel Committee on Banking Supervision and the International Association of Insurance Supervisors-- to create a uniform global capital standard within the banking, insurance and securities industries.

Sound Practices at Large Intermediaries relating to the Assessment of Creditworthiness and the Use of Credit Ratings

IOSCO published its final report on *Sound Practices at Large Intermediaries relating to the Assessment of Creditworthiness and the Use of Credit Ratings,* in December 2015. The report recommends 12 sound practices that regulators could consider as part of their oversight of market intermediaries. Large market intermediaries also may find the sound practices useful in the development and implementation of effective alternative methods for the assessment of creditworthiness.

IOSCO undertook this work on the premise that reducing the overreliance on credit rating agencies (CRAs) for credit risk assessment would help enhance investor protection, while contributing to market integrity and financial stability.

The report was inspired by the FSB publication in 2010 of *Principles for Reducing Reliance on CRA Ratings* which recommended that market intermediaries should exercise their own due diligence in independently assessing credit and other investment risks, rather than mechanistically rely on CRA ratings. The FSB Principles called for standard setters and regulators to consider the necessary steps for translating the Principles into more specific policy actions.

Crowdfunding

In December 2015, the Committee also published its *Crowdfunding 2015 Survey Responses*. This report examines the developments in members´ current or proposed regulatory regimes for investment–based crowdfunding and highlights emerging trends and issues in this area. It also describes factors that regulators may find useful for the development of regulatory measures to address the inherent risks unique to crowdfunding, such as the high risk of default or failure, the risk of fraud and the risk of platform failure.

Based on the findings from this survey, Committee 3 also published a *Statement on regulation of crowdfunding,* which seeks to raise awareness of some of the major risks investors face in crowdfunding.

IOSCO´s objective in this area is to encourage regulators and policy makers to balance the need for supporting economic growth and recovery with that of protecting investors when developing crowdfunding as a means to invest in small firms and start-ups.

Other Mandates

In 2015, Committee 3 also conducted work on retail OTC leveraged products. The work involved a survey of Committee 3 members focused on three particular types of OTC products that are offered and sold to retail investors in many jurisdictions: rolling-spot forex contracts, contracts for differences (CFDs) and binary options. Another ongoing Committee 3 project involves order routing incentives and how these may affect order routing behaviors by regulated market intermediaries. Finally, Committee 3 is also updating the regulators survey on automation of advice tools. Work on these mandates will continue in 2016.

Committee on Enforcement and Exchange of Information – C4

Committee Chair:
Georgina Philippou (UK FCA)
Committee Vice Chair:
Jean-Francois Fortin (Québec AMF)

Credible Deterrence

Recent scandals at some of the world's largest financial institutions has undermined public confidence in capital markets and eroded trust in the financial system, while casting doubt on the effectiveness of regulators to eradicate and punish egregious misconduct.

In light of the public demand for tougher sanctions to deter this type of market misconduct, Committee 4 issued, in June 2015, the report *Credible Deterrence*, which identifies key enforcement factors that may deter misconduct in international securities and investment markets. Taking into account the wide divergence in international sanctions regimes, the report provides a set of factors upon which jurisdictions can build credible deterrence frameworks using real life examples from IOSCO members.

Credible deterrence is a vital component of any effective enforcement strategy. Deterrence is credible when would-be wrongdoers perceive that the risks of engaging in misconduct outweigh the rewards and when non-compliant attitudes and behaviors are discouraged. Deterrence occurs when persons who conteplate engaging in misconduct are dissuaded from doing so because they have an expectation of detection and that detection will be rigorously investigated, vigorously prosecuted and punished with robust and proportionate sanctions.

The report highlights seven key elements for credible deterrence:

1. **Legal certainty**: Consequences for misconduct must be certain and predictable;
2. **Detecting misconduct**: Regulators must be well connected and obtain the right information;

3. **Co-operation and collaboration**: Safe havens must be eliminated by regulators working together;
4. **Investigation and prosecution of misconduct**: Enforcement must be bold and resolute;
5. **Sanctions**: Strong punishments must be given to wrongdoers so as to stop them from profiting from misconduct;
6. **Public messaging**: Public understanding, transparency and caution must be promoted;
7. **Regulatory governance**: Good governance is necessary to deliver better enforcement.

Committee 4 is continuously gathering and updating real life examples from IOSCO members, which other member jurisdictions can refer to when building their own credible deterrence frameworks.

Enforcement Cooperation

IOSCO believes that enforcement cooperation among regulators is essential to attain effective global regulation and robust securities markets around the globe. To that end, Committee 4 continued to work with the MMoU Screening Group to encourage global enforcement cooperation under the IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (MMoU), the international standard for cooperation and information exchange.

Securities regulators around the world use the MMoU to combat cross-border fraud and misconduct that can weaken global markets and undermine investor confidence. It sets out specific requirements for the exchange of information, ensuring that no domestic banking secrecy, blocking laws or regulations prevent the exchange of enforcement-related information among securities regulators. *(For more information on the MMoU see MMoU Screening Group under the chapter **Implementation and the MMoU**).*

Committee 5 on Investment Management - C5

Committee Chair:
Natasha Cazenave (France AMF)
Committee Vice Chair:
Yuri Yoshida (Japan FSA) since September 2015

Proposed Methodologies to identify systemically important non-bank financial entities

In March 2015, IOSCO and the FSB published the second consultation document *Assessment Methodologies for Identifying Non-Bank Non-Insurer Global Systemically Important Financial Institutions (NBNI G-SIFIs).* The aim of the proposed methodology was to identify NBNI financial entities whose distress or disorderly failure would cause significant disruption

to the wider financial system and economic activity at the global level, because of their size, complexity and systemic interconnectedness.

The first consultation report was published in January 2014, with a view to developing an assessment methodology for NBNI G-SIFIs that would complement the current methodologies for identifying global systemically important banks and insurers. Committee 5 worked on developing a methodology aimed at assessing the systemic significance of investment funds; Committee 3 on the Regulation of Market Intermediaries identified a set of similar indicators for market intermediaries.

Consultative responses were received from more than 50 respondents, including trade associations, individual firms and individuals. Most of the respondents focused on the proposed methodology for investment funds and asked for a more thorough analysis of the systemic risks associated with asset management entities, prompting the FSB and IOSCO to launch the second consultation paper. Some 50 comments were received.

In June 2015, the IOSCO Board decided that a full review of asset management activities and products in the broader global financial context should be the immediate focus of international efforts to identify potential systemic risks and vulnerabilities, and that this review should take precedence over further work on methodologies for the identification of systemically-important asset management entities. It was agreed that work on methodologies for the identification of such entities should be reassessed after the review was completed.

Structural Vulnerabilities in Asset Management

Based on guidance received from the IOSCO Board at its Seoul (Feb 2015) meeting, IOSCO's Committee 5 set-up three subworking groups (SWG) covering the following topics.

- SWG 1 - Data Gaps
- SWG 2 – Liquidity Management
- SWG 3 – Loan Origination Funds

This work is ongoing and will help inform discussions with the FSB.

SWG1 - Data Gaps

The SWG1 is seeking to take stock of currently available data, and to identify where the data collected could be enhanced notably to help regulators monitor risks across the industry. The first phase of the work will be a report (due mid 2016) that will suggest a number of high-level recommendations. The second phase, to commence mid-2016, will prioritize highlighted data gaps and/or definitional issues for further work. More granular work will then begin on enhancing data collection.

SWG2 –Liquidity Management

The objective of SWG2 is to provide useful input, from the perspective of securities markets regulators, to the broader debate on liquidity risk management in Collective Investment Schemes (CIS). As a result, Committee 5, through this subworking group, began to examine in 2015 the existing risk management practices, looking at how they relate to the existing 2013 IOSCO Principles and developing further guidance in those areas where additional recommendations may be required, including stress testing.

SWG3 –Loan Origination Funds[2]

In 2015, SWG3 began a survey of the different regimes in place across jurisdictions as a guide to how loan origination funds are developing and regulated. Based on the findings, SWG3 will consider the need to develop international guidance in relation to these funds.

Reducing Reliance on Credit Rating Agencies in Asset Management

In June 2015, IOSCO published a set of good practices for consideration by market participants and regulators in relation to the use of CRA ratings in the asset management industry. The report was issued five years after the publication of the FSB report *Principles for Reducing Reliance on CRA Ratings*, which called on regulators and standard setters such as IOSCO to consider steps for translating these Principles into more specific policy action.

The IOSCO report stresses the importance of asset managers having the appropriate expertise and processes in place to assess and manage the credit risk associated with their investment decisions. To help managers avoid over-reliance on external ratings, the report lists good practices they may consider when resorting to external ratings.

2 Following the tightening of bank rules (i.e., Basel III), investment funds that supply loans to corporate borrowers have emerged. These funds either select existing loans originally issued by banks or issue loans in competition with banks.

In the report, IOSCO notes that the use of external ratings by asset managers is mainly demand-driven, as various forms of reliance on external credit ratings remain on the investor side. References to external credit ratings may derive from regulatory requirements or an investor's own internal rules. This may result in mechanistic reliance, which could trigger forced asset sales in the event of downgrades. To address these concerns, IOSCO recommends considering potential ways to reduce possible investor overreliance on external ratings as a result of references in regulatory requirements. The good practices address national regulators, investment managers, and investors, where applicable.

Collective Investment Schemes (CIS).

Standards for the Custody of CIS Assets

The safekeeping of client assets by intermediary custodians has come under greater scrutiny following the 2007-2008 financial crisis and several corporate collapses, such as the insolvencies of Lehman Brothers and MF Global, and the Madoff Ponzi scheme fraud.

Responding to these concerns, Committee 5 published, in October 2014, a consultation report on *Principles regarding the Custody of Collective Investment Schemes´ Assets.* The aim of the report was to gather the views of investment managers, custodians, institutional investors and other interested parties on a set of proposed Principles for the Custody of CIS assets.

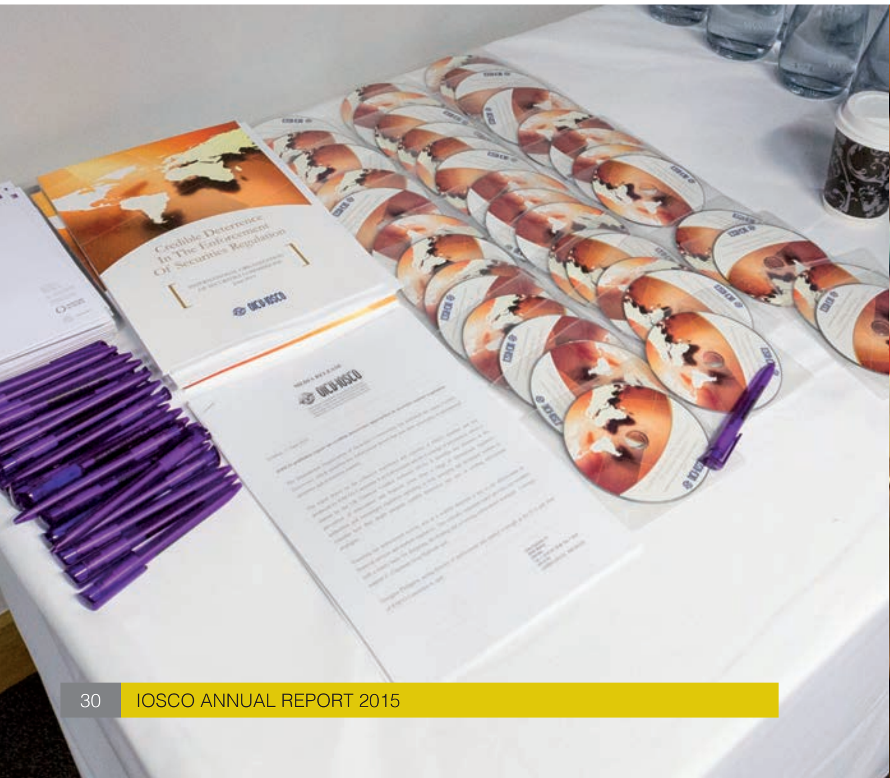
The final report was published in November 2015. It sets out eight standards divided into two sections, which are aimed at identifying the core issues that should be kept under review by regulators to ensure investors' assets are effectively protected. The first section focuses on key aspects relating to the custody function. The second part is dedicated to standards relating more specifically to the appointment and ongoing monitoring of custodians.

International Regulatory Standards on Fees and Expenses of Investment Funds

In a consultation report published in June 2015, Committee 5 proposed an updated set of common international standards of best practices for operators of CIS and regulators to consider.

This project is aimed at updating or expanding the 2004 IOSCO Report on *Elements of International Regulatory Standards on Fees and Expenses of Investment Funds,* which focused on key issues regarding fees, including disclosure of fees and expenses to the investor, transaction costs and performance fees.

Since the 2004 report, the natural evolution of the industry has given rise to new CIS product structures, new investment strategies and changing distribution models, among other developments. At the same time, regulatory developments in some jurisdictions or at the regional level have changed the way fees and expenses are disclosed, while the effectiveness of certain disclosure models has been tested with investors. Committee 5 expects to publish a final report in 2016.



Liquidity Management Tools in CIS

In December 2015, Committee 5 published the report *Liquidity Management Tools in Collective Investment Schemes (CIS),* which maps existing liquidity management frameworks in 26 member jurisdictions with a particular focus on tools to help deal with exceptional situations (e.g., significant redemption pressure). The report is based on a survey sent to members of Committee 5.

The report sets out clearly the various frameworks and policy tools currently at the disposal of asset managers in a large number of jurisdictions and the scope of funds to which they apply.

Framework for the Termination of a CIS

Committee 5 launched a new work stream in 2015 to look into the possibility of elaborating a set of good practices aimed at ensuring that CIS have liquidation procedures in place to protect their assets and investor interests. The objective is to set forth a common global approach to the termination of CIS. To conduct this work, Committee 5 is looking at existing termination regimes and current practices in member jurisdictions.

Hedge Fund Survey

In December 2015, Committee 5 published *A Report on the Third IOSCO Hedge Fund Survey.* The survey forms part of IOSCO´s efforts to achieve a globally consistent collection and sharing of data on hedge fund activities and their risks. As the only such global exercise of its kind, the survey helps support the G20 initiative to mitigate risk associated with hedge funds. The report explains the results of the third IOSCO survey and provides an overview of the hedge fund industry as of 30 September 2015.

Committee on Credit Rating Agencies – C 6

Committee Chair:
Rita Bolger (US SEC)
Committee Vice Chair:
Yasuto Watanabe (Japan FSA)

Revision of the IOSCO Code of Conduct Fundamentals for Credit Rating Agencies

In March 2015, Committee 6 published its final *Code of Conduct Fundamentals for Credit Rating Agencies (the IOSCO CRA Code)*, which includes significant revisions and updates to the IOSCO CRA Code in effect at that time. The revisions to the IOSCO CRA Code are designed:

- to strengthen the IOSCO CRA Code by enhancing provisions aimed at protecting the integrity of the credit rating process, managing conflicts of interest, providing transparency, and safeguarding non-public information;
- to strengthen the IOSCO CRA Code by adding measures regarding governance, training, and risk management; and

- to improve the clarity of the IOSCO CRA Code by adding definitions of key terms and revising existing definitions, updating terminology, restructuring existing provisions to better group them thematically, and eliminating extraneous text.

The IOSCO CRA Code is intended to offer a set of robust, practical measures as a guide for CRAs to protect the integrity of the rating process. The code seeks to ensure that issuers and users of credit ratings, including investors, are treated fairly, and to safeguard confidential information provided by issuers.

The Code was first published in 2004 when few jurisdictions had laws governing activities of CRAs. It was later revised in 2008 to include significant disclosure provisions that addressed concerns regarding the quality of information that CRAs relied on.

Other CRA Products

Committee 6 continued work on its mandate on *Other CRA Products* in 2015. The objective of the project is to gain a clearer understanding of those CRA products that differ from the traditional issuer-paid or subscriber paid credit ratings, but may be used by investors and others to make investment and other credit-related decisions.

Committee 6 aims to understand better how CRAs create these other products and how they are used by market participants to measure the credit risk of issuers or securities.

Other CRA Products are distinguishable from the traditional credit ratings that CRAs publicly disclose or disseminate to subscribers and may include, for example, activities such as private ratings, confidential ratings, expected ratings, and indicative ratings. Market participants may use other CRA products to help assess the creditworthiness of an entity or obligation.

Committee on Commodity Derivatives Markets - C 7

Committee co-Chairs:
David Lawton (UK FCA)
Eric Pan (US CFTC)

Principles for Oil Price Reporting Agencies (PRAs)

In September 2015, Committee 7 on Commodity Derivatives Markets published its second review on the *Implementation of the Principles for Oil Price Reporting Agencies (PRAs)* in collaboration with the International Energy Agency (IEA), the International Energy Forum (IEF) and the Organization of Petroleum Exporting Countries (OPEC).

IOSCO's report concluded that the Principles for Oil Price Reporting Agencies (PRA Principles) have become an integral part of the PRA's management policies and operational practices. IOSCO, IEA, IEF and OPEC agreed that further annual implementation reviews would not be necessary at that time, given the progress made, and the commitment by the four main PRAs to continue adhering to the PRA Principles and to undergo independent external assurance reviews.

However, they will continue to monitor the PRAs' activities primarily through the results of subsequent external assurance reviews and their ongoing engagement with the PRAs and interested stakeholders.

The report was the second review of the *Principles for Oil Price Reporting Agencies,* which were issued in 2012 as part of an effort to enhance the reliability of the oil price assessments that are referenced in derivative contracts and subject to regulation by IOSCO members. Committee 7 prepared the PRA Principles in collaboration with the three international energy organizations, IEA, IEF and OPEC. The first implementation report published in September 2014 concluded that good progress was made during the first year of implementation, but that it is an ongoing endeavor. It suggested that further work would be needed once the PRA Principles became more embedded in the PRA processes.

The second review takes into account the results of the PRAs' second year assurance reports, the operational changes implemented by the PRAs and the public comments received on the continuing implementation of the PRA Principles. The review was also informed by two quantitative and qualitative reports prepared by the IEA, IEF and OPEC, which analyze the impact of the IOSCO Oil PRA Principles on physical oil markets.

The three international organizations, in liaison with IOSCO, also prepared a report on the outcomes of the Survey of Oil Market Participants entitled *Impact of the Principles for Oil PRAs on the Physical Oil Market*. A summary of the report was submitted to the G20 Energy Sustainability Working Group (ESWG) meeting in Antalya on 24-25 February 2015, and was subsequently presented to the Turkish G20 Presidency ESWG later that year.

The Impact of Storage Infrastructures on Derivatives Market Pricing

In 2015, Committee 7 continued its review of the impact of storage and delivery infrastructures on the integrity of the price formation process of physically delivered commodity derivatives contracts traded on regulated platforms. As part of this work, Committee 7 gathered information relating to rule enforceability, conflicts of interest, impact on price formation through capacity or load out rate constraints, and information dissemination. The report is expected to be published in the first half of 2016. Committee 7 also will circulate to the Board a project specification seeking to develop sound practices for storage infrastructure.

Committee on Retail Investors C8

Committee Chair:
Howard Wetston (Ontario OSC)
Committee Vice Chair:
Leonardo P. Gomes Pereira (Brazil CVM)

Developing a strategic framework

Established in June 2013, Committee 8´s first project was to develop a strategic framework to guide IOSCO´s investor education and financial literacy agenda. Following a public consultation, the committee´s *Strategic Framework for Investor Education and Financial Literacy* was published in November 2014. It describes IOSCO´s role in investor education and financial literacy, the role of research, particularly in the field of behavioral economics, and Committee 8's initial focus and strategic approach to fulfilling this mandate.

In September 2015, Committee 8 published the report on *Sound Practices for Investment Risk Education*, which identifies a number of sound practices for investment risk education initiatives. The conclusions are based on an analysis of the approaches and practices adopted by Committee 8 members in designing and delivering their investment risk education initiatives, as well as a review of literature on the topic. The report defines *investment risk* as the risk that an investment will not deliver the expected yield and/or lose value.

In 2015, the Committee published a report on the Survey on Anti-Fraud Messaging, describing the strategies used by Committee 8 members to educate individual investors about how to protect themselves against investment fraud. The report looks at issues such as fraudulent securities offerings or investment schemes in which investors have been victimized; the common characteristics of victims of investment fraud; the content of anti-fraud messaging, and the communication channels used to deliver anti-fraud messages.

To advance its secondary mandate on investor protection, Committee 8 undertook an internal fact-finding project to determine whether its members obtain feedback and input from retail investors in the development of regulatory policy and, if so, how it is done. A final report on the conclusions is expected to be published in early 2016.

New work streams

At its November 2015 meeting in London, the Committee agreed to establish small working groups to look into developing project specifications for possible new mandates related to senior retail investor vulnerability; implications of new financial technologies for investor education; and the application of behavioral economics.

Joint Policy Committee Work: Cyber-resilience

IOSCO cyber coordinator:
Louis Morriset (Québec AMF)

Increasingly, cyber risk constitutes a threat to the integrity, efficiency and soundness of financial markets worldwide. In response to this growing threat, the IOSCO Board agreed in February 2014 to investigate further how the organization could support its members and market participants in dealing with cyber risk, with a view to publishing a report highlighting some of the tools available to regulators for enhancing the cyber-resilience of securities markets.

The Board entrusted the Autorité des marchés financiers Québec (Québec AMF), with the assistance of China Securities Regulatory Commission (CSRC) and the Monetary Authority of Singapore (Singapore MAS), with the coordination of the activities of the Affiliate Member Consultative Committee (AMCC) and the different IOSCO policy committees involved in cyber risk work. During 2015, the Québec AMF, CSRC and MAS drafted the IOSCO report: *Cyber Security in Securities Markets: An international perspective*, which will be tabled for approval by the IOSCO Board in early 2016. The report will describe the cyber-related work conducted by IOSCO's policy committees, the AMCC and the CPMI-IOSCO Working Group on cyber resilience. The report will describe some of the different regulatory approaches that IOSCO members have taken to improve cyber security and increase information sharing among regulators and market participants on cyber risks.

Task Forces

Board Level Task Force on Financial Benchmarks

Task Force Chair:
David Lawton (UK FCA)

IOSCO established a Board-level Task Force in September 2012 to identify and consider benchmark related issues, following a series of investigations into attempted manipulation of financial benchmarks.

As its first response to the benchmark scandal, the Task Force published, in July 2013, the *Principles for Financial Benchmarks* (Principles) with the aim of creating an overarching framework of 19 Principles for benchmarks used in financial markets, covering governance and accountability, as well as the quality and transparency of benchmark design and methodologies. The IOSCO Principles were endorsed by the G20 and the FSB as the global standards.

In February 2015, the Task Force published the *Review of the Implementation of IOSCO's Principles for Financial Benchmarks*. The report sets out the findings of IOSCO´s review of the implementation of the Principles by a sample of administrators of financial benchmarks across a range of geographical areas and asset classes. The review indicated that a majority of administrators surveyed had made an effort to implement the Principles. The responses received also showed that the benchmarks industry is in a state of change, and administrators continue to work towards compliance with the Principles. Many examples also were given of benchmarks being transitioned to new methodologies and administrators.

During the year, the Task Force also initiated two new areas of work: (1) administrators' interpretation of proportionality and full compliance content and (2) the format of administrators' statements of compliance.

Task Force on OTC Derivatives Regulation

Task Force co-Chairs:
Kevin Fine (Ontario OSC)
Sujit Prasad (India, SEBI)
Brian Bussey (US SEC)
Warren Gorlick (US CFTC)
Tom Springbett (UK FCA)

In a March 2013 report to the IOSCO Board, the Task Force on OTC Derivatives highlighted the importance of determining whether the new rules on over-the-counter (OTC) derivatives achieve their attended effect and, if so, to disseminate best practices.

As part of that work, the Task Force published, in August 2015, the final report *Post-Trade Transparency in the Credit Default Swaps Market*, which analyzes the potential impact of mandatory post-trade transparency in one particular OTC derivatives market: credit default swaps (CDS).[3]

3 CDS are contracts that transfer the credit risk of a reference entity or instrument from a buyer of credit protection to a seller of credit protection. The Bank for International Settlements estimates that $16 trillion in notional amounts were outstanding in the CDS market at end-2014.

In the report, IOSCO concludes that greater post-trade transparency in the CDS market—including making the price and volume of individual transactions publicly available—would be valuable to market participants and other market observers. It encourages each member jurisdiction to take steps towards enhancing post-trade transparency in its CDS market.

Based on its analysis, IOSCO also concludes that the data does not suggest that the introduction of mandatory post-trade transparency had a substantial effect on market risk exposure or market activity for CDS. Improving transparency in the CDS market, it believes, will increase the efficacy of the G20 commitments to reform the OTC derivatives markets.

In July 2015, the Board mandated the Task Force on OTC Derivatives to conduct research regarding the functioning of the ISDA Credit Determinations Committee and CDS auction processes and to assess whether the Task Force would recommend to the IOSCO Board that further work in this area should be undertaken.

Task Force on Cross-Border Regulation

Task Force Chair:
Ashley Alder (Hong Kong SFC)
Task Force Vice Chair:
Anne Héritier Lachat (Swiss FINMA)

IOSCO established the Task Force on Cross-Border regulation in 2013 to identify and consider cross-border regulatory issues and tools.

In September 2015, IOSCO published the final report *IOSCO Task Force on Cross-Border Regulation*. The report indicates that cross-border regulation is moving towards more engagement via different forms of recognition to solve regulatory overlaps, gaps, and inconsistencies. While the increased engagement is mostly bilateral at this stage, multilateral engagement is likely to develop further with the greater use of supervisory Memoranda of Understandings, as markets continue to grow around the world.

The report presents a series of concrete next steps aimed at supporting cross-border regulation and embedding the consideration of cross-border issues more effectively into IOSCO´s work. Among these, IOSCO policy committees will start to identify and consider specific cross-border implications of their policy-making. Task Force members also agreed that IOSCO should engage more with the G20 and the FSB in order to raise greater awareness of the key issues and challenges faced by IOSCO members on cross-border regulation, including the need for more refined thinking on concepts of *deference*.

Following publication of the report, IOSCO disbanded the Task Force.

Working Group on Risk Mitigation Standards for Non-centrally Cleared Derivatives

Working Group Chair:
Lee Boon Ngiap (Singapore MAS)

In September 2013, the OTC Derivatives Regulators Group called upon IOSCO to develop a set of risk mitigation techniques, which would complement the margin requirements developed by the Basel Committee on Banking Supervision (BCBS) and IOSCO, in an effort to further reduce the risks in the non-centrally cleared derivatives market.

On 28 January 2015, IOSCO released the final report on *Risk Mitigation Standards for Non-centrally Cleared OTC Derivatives*, which sets out nine standards aimed at strengthening the non-centrally cleared OTC derivatives market. IOSCO developed these standards in consultation with the BCBS and the Committee on Payments and Market Infrastructures (CPMI), taking into consideration the comments received from an earlier public consultation. The standards encourage the adoption of sound risk mitigation techniques to promote legal certainty over the terms of the non-centrally cleared OTC derivatives transactions, to foster effective management of counterparty credit risk and to facilitate timely resolution of disputes.

Audit Quality Task Force

Task Force Chair:
Gerben J. Everts (Netherlands AFM)

In February 2014, IOSCO established the Audit Quality Working Group to help identify possible areas where the organization could work to promote audit quality. Improving the quality of international auditing is key to promoting consistent high quality financial reporting. Audit and securities regulators across the globe have pointed out that reforms are required.

Also in 2014, the IOSCO Board approved the working group's recommendation to set up an Audit Quality Task Force (AQTF) with a mandate to oversee and execute other working group recommendations, which included:

- ensuring that cooperation with stakeholders (strategic partners) such as the International Forum of Independent Audit Regulators (IFIAR) progresses on a more permanent and institutionalized basis.
- assessing whether and how to strengthen the role of audit committees and, as a first step, launching a survey on the role of Audit Committees vis-à-vis audit quality and how this role has evolved in different jurisdictions over time.
- promoting more robust audit-related standard setting governance.

During 2015, the Task Force took steps to follow these recommendations. Among other things, it discussed with IFIAR ways to intensify cooperation and establish a working relationship at secretariat level that facilitates the exchange of information between IFIAR and IOSCO. The Task Force also conducted, in conjunction with Committee 1 on Issuer Accounting, Audit and Disclosure, a survey on audit committee requirements. Based on the survey results, it worked on a report intended to inform interested stakeholders and IOSCO members about existing audit committee requirements and help them identify audit committee practices for improving audit quality.

The Task Force Chair was appointed by the IOSCO Board to lead the Monitoring Group, a group of international financial institutions and regulatory bodies committed to advancing the public interest in areas related to international audit standard setting and audit quality. Under its new leadership, the Monitoring Group will continue to monitor the execution of the Public Interest Oversight Board´s mandate and the implementation of the reforms needed to improve the structure and oversight of audit standard setting.

Task Force on Market Conduct

Task Force Chair:
Ashley Alder (HK SFC)
Task Force Vice Chair:
David Lawton (UK FCA)

The Task Force on Market Conduct was established in 2015, following a request from the FSB for IOSCO to explore the possible benefit of undertaking further work on market conduct.

The aim of this work is to develop a toolkit of measures to promote proper conduct by market participants in wholesale markets, including both individuals and firms, and assist regulators in understanding the tools available for enhancing their market conduct regimes.

During 2015, the Task Force conducted a mapping exercise of IOSCO's prior work on standards of conduct for individuals and firms and of its measures to promote compliance with those standards. It also surveyed IOSCO members on the regulatory tools and approaches they use to foster proper conduct and accountability by market participants.

The final report of the Task Force will draw on the findings of the mapping exercise and member survey and is expected to be completed by the end of 2016.