

IOSCO Research

The Research Function was set up in 2010 to assist IOSCO in its efforts to identify, monitor and manage systemic risks. The IOSCO 2020 Strategic Direction expanded the scope of this research mission to go beyond financial stability and include IOSCO's two other core objectives: investor protection and fair, efficient and transparent markets.

Securities markets are characterized by rapid change and financial innovation. Securities regulators in their jurisdictions, and IOSCO at a global level, rely on the Research Function to help keep them informed of potential risks emanating from new products, business models, activities, and participants. The Research Function helps IOSCO focus its strategic policy agenda and provides insights for policy work.

The Research Function consists of a Committee on Emerging Risks (CER), chaired by Jennifer Marietta-Westberg, Deputy Chief Economist of the U.S. Securities and Exchange Commission, and a small Research Department at the General Secretariat, headed by Werner Bijkerk. In December 2015, Dr. Marietta-Westberg succeeded Theodor Kockelkoren, board member of the Netherlands Authority of the Financial Markets (AFM).

The identification of global risks

During the year, the Research Function prepared the *IOSCO Securities Market Risk Outlook 2016*. The Outlook, written by the Research Department with contributions from CER members, is based on a number of inputs, including data collection and analysis, extensive market intelligence, interviews with experts in major financial centers, roundtable discussions on risk with industry and regulators, input from IOSCO policy committees, and risk reports and presentations by experts. The Research Department also conducted in its annual survey of financial market regulators and leading experts on emerging risks in securities markets in April/May 2015. The aim of the survey was to help identify or highlight pockets of risk that might not be captured by other means.

The Outlook, which was published in March 2016, synthesizes these inputs and adopts a global and forward-looking approach to understanding risks that could become a threat to financial stability, as well as to investor protection, and the fair, efficient and transparent operation of markets.

The main issues highlighted in the Outlook are (1) market liquidity; (2) risks associated with use of collateral in financial transactions; (3) harmful conduct in relation to retail financial products and services; and (4) cyber threats.

The Outlook also highlights trends and potential vulnerabilities. Among these are: (1) the impact on securities markets from interventions of central banks worldwide; (2) the impact on securities markets from falling commodity prices and uncertainty over global growth trends; (3) general trends in corporate bond, equity and securitized product markets; (4) trends in emerging market securities markets related to leverage, capital flows, and market-based financing; and (5) the increasing digitalization of financial markets and potential for technological disruptors.

The risks addressed in the 2014-2015 Outlook – search for yield, capital flows to emerging markets, central clearing, use of collateral, and governance and culture of financial firms – remain among risks of concern and continue to be monitored and addressed by IOSCO policy work. The latest Outlook also discusses the issues relating to asset management activities, in light of current debates over the systemic importance of this industry and the regulatory work underway.

In-depth studies on pressing global issues

The Research Department also publishes in-depth exploratory analyses in the form of *Staff Working Papers*. The papers published in 2015 were:

- > An emerging markets perspective on *Corporate Bond Markets*, including potential risks and the role in market-based and long-term financing.
- > *A Survey of Securities Markets Risk Trends 2015* showing the changing perception of risks over the last four years.

These staff papers are often referenced by IOSCO policy committees in their global standard setting and other policy work.

Data collection

IOSCO data is available to members and the public on the research and statistics portal of the IOSCO website. In 2015, the CER undertook a mapping of the data available to its members, and is now extending this exercise to include members of the IOSCO Board. Having more available data will enable regulators to better monitor emerging risks in securities markets. The CER also surveyed its members regarding the data available specific to asset management to help inform the ongoing debate on this industry. The Research Function also collaborated with IOSCO policy committees on their data gathering and analysis, and increased the data collected on market trends in Africa and the Middle East, in collaboration with the IOSCO Africa /Middle East Regional Committee (AMERC).

Outreach, debate, training and education, and capacity building

In 2015, staff of the Research Department delivered keynote speeches, participated on panel presentations and provided training at meetings and events held by IOSCO members, other regulatory organizations, and market participants. The Research Department also regularly helps organize risk roundtables for IOSCO Board meetings in which experts exchange views with Board members on a specific issue. Recent discussions focused on the impact of technical innovation on financial markets and services. The Research Department also organized a “cyber-attack simulation” at the annual conference of the Growth and Emerging Markets committee in early 2016.

Participation in other fora for identifying global systemic risk

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), the Committee on Payments

and Market Infrastructures (CPMI) and other organizations that are tackling similar issues, such as the European Systemic Risk Board (ESRB) and the European Central Bank (ECB). To that end, the staff of the Research Department and the Chair of the CER actively engage with these organizations and institutions by providing input and making presentations about potential risks in securities markets. In 2015, the CER submitted a report to the FSB with case studies on risk events involving asset management. This report was instrumental in helping shape the debate on potential risks posed by asset management activities.

Ultimately, efforts to identify, monitor and mitigate risks throughout the financial system should help promote financial stability by curbing excessive risk taking, improving investor protection and facilitating capital formation.

