Activities of IOSCO's Policy Committees in the Year

The IOSCO Board reviews the regulatory issues facing international securities markets and coordinates practical policy responses to address the concerns they raise. 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 the Exchange of Information;
> Investment Management;
> Credit Rating Agencies;
> Derivatives; and
> Retail Investors

The Board also oversees the activities of the Growth and Emerging Markets (GEM) Committee. This 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 by facilitating the exchange of information, technology, and expertise.

The GEM Committee and the eight policy committees support IOSCO in pursuit of its three main objectives: to protect investors, maintain fair, efficient and transparent markets, and mitigate systemic risks.

In addition to the policy committees, several task forces were entrusted in 2017 with examining relevant developments in the financial markets. They included the following:

> The Board-level Task Force on Financial Benchmarks
> Task Force on Market Conduct
> Compensation Experts Group
> Infrastructure Working Group

Policy Committees

Committee 1 on Issuer Accounting, Audit and Disclosure

Committee Chair:
Mr. Parmod Kumar Nagpal (SEBI India)
Committee Vice Chair:
Ms. Jenifer Minke-Girard (US SEC)

The Committee 1 on Issuer Accounting, Audit and Disclosure (C1) is devoted to delivering IOSCO´s investor protection mandate by improving the development and maintenance of high-quality international accounting and auditing standards, enhancing financial reporting and audit quality, and improving the quality and transparency of the disclosure and financial information that investors receive from listed companies.

To help ensure investor access to reliable, complete, material, and timely information, 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.

In the field of accounting, Committee 1 also monitors the projects undertaken by the International Accounting Standards Board (IASB) of the International Financial Reporting Standards Foundation (the IFRS Foundation), which includes 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 IASB operates. Working through the IASB, its mission is to develop International Financial Reporting Standards (IFRS) that bring transparency, accountability, and efficiency to financial reporting 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. It provides the IASB with input that reflects the perspective of securities regulators. The collaboration between IOSCO and the IFRS Foundation is underpinned by the Statement of Protocols signed by both organizations in 2013 and strengthened in 2016.

IOSCO currently chairs the Monitoring Board (MB) that oversees the IFRS Foundation. It also holds a seat in representation of the IOSCO Growth and Emerging Markets Committee. In 2017, Committee 1 submitted comments on five IASB exposure drafts.

IOSCO believes that a set of international auditing standards has an important role to play 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). It also participates in their respective Consultative Advisory Groups (CAGs).

Monitoring Group Consultation Paper on reform of the global audit standard-setting process

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. Currently, IOSCO acts as the secretariat to the Monitoring Group and its members.

In November 2017, the Monitoring Group issued a consultation paper titled *Strengthening the Governance and Oversight of the International Audit-related Standard-setting Boards in the Public Interest*. The objective was to elicit stakeholder views on how best to safeguard the independence of the audit standard-setting process and increase its responsiveness to the public interest. The paper sets out various options to enhance the governance, accountability, and oversight of the international audit standard-setting process.

To complement this work, and gather a wide range of opinions, the Monitoring Board in early 2018 staged four roundtable discussions on the proposed reforms in Johannesburg, London, Washington DC, and Singapore.

During the consultation period, which ended on 9 February 2018, the MG received some 180 comment letters.

Other Activities in 2017

In early 2017, Committee 1 prepared an informational note for IOSCO Board discussion on integrated reporting, based on the findings of a stock-taking exercise of IOSCO members conducted the year before. The committee also analyzed the role of audit committees in enhancing audit quality and expected to issue a consultation report in 2018 on proposed good practices to assist audit committees in meeting that goal.

During 2017, Committee 1 also carried out surveys of its members on financial reporting surveillance to identify

areas for improvement in accounting standards that could lead to greater investor protection, particularly regarding valuation techniques.

Committee 2 on Regulation of Secondary Markets

Committee Chair:
Ms. Tracey Stern, Manager
(Ontario Securities Commission)
Committee Vice Chair:
Ms. Shamsul Bahriah Shamsudin (SC Malaysia)

Committee 2 on Regulation of Secondary Markets looks at the structure and regulation of global capital markets and financial market infrastructure, including developments in technology, trading, and trading venue oversight. Committee 2 work focuses on not only investor protection but also on issues relating to fair and efficient markets and the integrity of markets.

Bond Market Liquidity

Since publication of IOSCO's report *Transparency of Corporate Bond Markets* in 2004, various developments have affected corporate bond markets, including changes in regulation and market structure; new participants; a shift from the traditional dealer-based principal model to an agency based model; and the increasing use of new technologies. In response to these changes and expanding on the work completed in 2004, Committee 2 published two reports on corporate bond markets in 2017: a final report on secondary corporate bond market liquidity and a consultation paper on recommendations to improve transparency in these markets.

The IOSCO report *Examination of the Secondary Corporate Bond Markets*, published in March 2017, found no substantial evidence that secondary corporate bond market liquidity between 2004 and 2015 had deteriorated markedly from historic norms for non-crisis periods. The report did, however, reveal that the structure and characteristics of corporate bond markets underwent meaningful changes in this period, caused by new technology, the growth of electronic trading venues, and changes in execution models and dealer inventory levels.

The report´s findings confirmed that corporate bond markets remain fragmented among national and regional OTC markets and differ substantially across jurisdictions. The results also highlighted the lack of useful data on the trading of corporate bonds on secondary markets in different jurisdictions, largely because most bonds are traded through decentralized, dealer-intermediated OTC markets.

The report reinforced IOSCO´s conviction that regulators need access to timely, accurate, and detailed information on secondary corporate bond markets, to be able to assess changes in these markets, monitor trends, and respond accordingly. Publicly available information also supports the price discovery process and enables participants in the corporate bond markets to make more informed investment choices.

As this information is obtainable through regulatory reporting requirements and public transparency, IOSCO embarked on a project to examine issues related to regulatory reporting, transparency, and the collection and comparison of corporate bond market data across IOSCO´s membership. In August 2017, IOSCO consulted on recommendations to increase transparency and the availability of information on secondary corporate bond markets available to both regulators and the public. The consultation report *Regulatory Reporting and Public Transparency in the Secondary Corporate Bond Markets* recommends that regulatory authorities should analyze how they can enhance pre-trade transparency in corporate bond markets and implement regimes that require post-trade transparency.

One of IOSCO's core objectives is to ensure that markets are fair, efficient, and transparent. Events of extreme volatility can undermine this objective, weaken the integrity of securities markets, and lessen investor confidence. Committee 2, therefore, began a new project in 2017 to examine the steps that regulators and trading venues have taken to address extreme volatility risks in member jurisdictions and look at the lessons learned by member jurisdictions that have implemented mechanisms to mitigate the effect of extreme volatility on trading venues. Committee 2 received over 80 responses to a survey sent out in April 2017. Based on the survey results, the committee drafted a Consultation Report, which sets out eight high level recommendations that build on the recommendations in the 2011 Report *Regulatory Issues Raised by the Impact of Technological Changes on Market Integrity and Efficiency.*

Committee 3 on Regulation of Market Intermediaries

Committee Chair:
Ms. Claire Kütemeier (BaFin Germany)
Committee Vice Chair:
Mr. Greg Yanco (ASIC Australia)

Committee 3 on Regulation of Market Intermediaries seeks to promote investor protection and market efficiency through its recommendations on issues related to market intermediaries. In 2017, Committee 3 continued its crucial work to identify and address the risks arising from the offer and sale of OTC leveraged products to retail clients.

Based on the findings of a survey it conducted, Committee 3 published in December 2016 a report analyzing offers of rolling spot forex contracts, contracts for differences, and binary options to retail investors. Survey respondents indicated their concern with the losses incurred by retail investors on these OTC leveraged products and expressed alarm over the aggressive online advertising, social media, expert blogs, and other cross-border marketing techniques used by many companies to attract investors. In some cross-border cases, regulators struggle to identify or track unlicensed foreign firms that may provide false addresses or use anonymous domain registrations for their websites when selling these products.

In early 2018, the committee issued a consultation report on proposed policy measures for its members to consider when addressing the risks arising from the offer and sale of OTC leveraged products to retail investors.

Committee 3 published in June 2017 a report analyzing how the incentives for order routing may influence the way intermediaries treat their clients, as part of IOSCO´s effort to protect investors, promote market liquidity and efficiency, and enhance price transparency in financial markets. The report examines the regulatory requirements for brokers or firms to manage the conflicts of interest arising from incentives, such as discounts or rebates designed to direct order flow to one particular venue or to channel payments from one intermediary to another to receive their order flow.

To prepare the report, IOSCO issued a public consultation paper in December 2016, based on the findings of a member survey on current and publicly proposed regulatory initiatives to address conduct risks associated with order routing incentives.

Finally, during 2017, Committee 3 worked on guidance to address conflicts of interest stemming from the role of intermediaries in the equity capital raising process, which it issued for public consultation in early 2018. In the report, *Conflicts of interest and associated conduct risks during the equity capital raising process*, the committee describes the main stages of the equity raising process where the role of intermediaries might give rise to conflicts of interest. The proposed guidance comprises eight measures grouped according to the various stages in the capital raising process.

The guidance seeks to help members enhance the scope and quality of timely information made available to investors during equity capital raising, improve the transparency of allocations, and increase the efficiency and integrity of the overall process.

C3 members agreed in December 2017 to commence work on outsourcing. The committee is coordinating with other policy committees that are also currently working on outsourcing/third party service providers, to investigate the synergies among the various workstreams on outsourcing. (*See Cross-Committee and Collaborative Work below*).

Committee 4 on Enforcement and Exchange of Information

Committee Chair:
Mr. Jean-Francois Fortin (Québec AMF)
Committee Vice Chair:
Ms. Jane Attwood (UK FCA)

Enforcement Cooperation

Committee 4 on Enforcement and Exchange of Information continued in 2017 to work with the MMoU

Screening Group to encourage global cooperation on enforcement among IOSCO members 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. IOSCO believes that cooperation among regulators on enforcement is essential to sustain effective global regulation and robust securities markets around the globe.

In March 2017, IOSCO launched the Enhanced MMoU (EMMoU) which provides for additional enforcement powers that IOSCO believes are necessary for continuing to safeguard the integrity and stability of markets, protect investors, and deter misconduct and fraud. *(For more information on the MMoU and the EMMoU, please see MMoU/EMMoU Screening Group in the chapter on Implementation and the MMOU).*

Prohibitions, disqualifications, and limitations based on foreign sanctions

Committee 4 completed in June 2017 its mandate on prohibitions, disqualifications, and limitations based on foreign sanctions. For this work, Committee 4 examined the capacity of a jurisdiction to take into account the measures of another jurisdiction when imposing a protective sanction to prevent misconduct in both markets. Committee 4 undertook this project due to the increasingly cross border nature of its enforcement work, as reflected in a steady increase in the number of assistance requests made each year under the MMoU.

The objective of the mandate was to encourage members to work more closely together to deter, detect, and react through enforcement actions to breaches of securities laws that span multiple jurisdictions. IOSCO distributed the final analysis paper among members in June 2017.

A review of regulatory enforcement risks arising from the use of Cloud technology

Committee 4 also finalized in June 2017 its mandate aimed at identifying the potential risks that cloud computing poses to securities regulators. The work was conducted as market participants increasingly shift computing resources to the cloud environment, creating new risks and challenges for securities regulators undertaking investigations and regulatory surveillance for enforcement purposes. One fear is that market participants may seek to circumvent regulatory oversight by moving their activity to the cloud. Securities regulators also worry that legal or other constraints may block them from retrieving cloud-based evidence.

To complete its work, Committee 4 circulated among IOSCO members an overview of regulatory enforcement risks arising from the use of cloud technology.

Securities regulators´ powers to compel witness statements and obtain voluntary statements.

The IOSCO Board approved in August 2017 a Committee 4 report that describes the abilities of different jurisdictions to compel witness statements and obtain voluntary statements on behalf of a foreign securities regulator. These statements are critical to the regulatory investigations of IOSCO members; they can corroborate known details, point to new leads, and confirm the reliability of information, thereby bolstering international efforts to combat illegal activity in financial markets.

Based on the report, Committee 4 developed a Resource for IOSCO members that compiles information on the powers of different jurisdictions to compel witness statements and voluntary statements for foreign securities regulators.

Committee 5 on Investment Management

Chair:
Mr. Robert Taylor (UK FCA)
Committee Vice Chair:
Ms. Natasha Cazenave (France AMF)

Work on Structural Vulnerabilities in Asset Management Activities

The work of IOSCO´s Committee 5 on Investment Management focused in 2017 in large part on identifying risks associated with market liquidity and other potential sources of vulnerability in asset management activities that could impact financial stability, such as leverage. Committee 5 conducted its work through three sub-working groups (SWG) to take forward the recommendations in the Financial Stability Board report, *Policy Recommendations to Address Structural Vulnerabilities from Asset Management Activities*, published in January 2017.

This work forms part of IOSCO´s on-going effort to build a robust, sustainable system of market-based finance. The following subgroups conducted the work:

SWG1- Data Gaps

The purpose of SWG1 is to take stock of the data currently available to regulators and identify where it could be improved to help regulators monitor the risks

across the asset management industry more effectively. An SWG1 working group was seeking in 2018 to develop consistent measures of leverage in collective investment funds.

SWG2- Liquidity Management

In July 2017, Committee 5 issued recommendations for public consultation that seek to improve liquidity risk management practices of open-ended collective investment schemes (CIS). The recommendations reflect IOSCO´s belief that the best defense against structural vulnerabilities is for responsible entities to implement robust liquidity risk management programs. Simultaneously, Committee 5 published a report that provides practical information, examples, and good practices regarding open-ended fund liquidity risk management, to supplement its recommendations. The final recommendations and good practices for liquidity risk management were published in early 2018.

SWG3- Loan Funds

IOSCO published the report *Findings of the Survey on Loan Funds* in February 2017, which describes how the market for Loan Funds has evolved in different jurisdictions and how regulators are addressing the risks associated with these funds. Although Loan Funds represent a relatively small share of the global fund industry, they are becoming increasingly important as a niche product for financing the real economy.

Other Work

As part of IOSCO´s investor protection work, Committee 5 published in November 2017 good practices on the voluntary termination of investment funds. The decision to terminate an investment fund can have a significant impact on investors, including their ability to withdraw their funds promptly. These good practices apply to voluntary terminations because national legislation in most jurisdictions addresses involuntary terminations, such as those caused by insolvency.

In 2017, Committee 5 also published the *Report on the Fourth IOSCO Hedge Fund Survey*, which provides an overview of the hedge fund industry based on data as of 30 September 2016. Given the lack of public and global data on hedge fund activities, IOSCO´s biennial survey has become an important resource for regulators, enabling them to observe trends in trading activities, leverage, liquidity management, markets, and funding in the global hedge fund sector. Since C5 conducted the first survey in 2010, data collection has expanded due to enhanced regulatory reporting regimes in some jurisdictions and fewer legal constraints around the use and sharing of data.

Committee 6 on Credit Rating Agencies

Committee Chair:
Ms. Rita Bolger (US SEC)
Committee Vice Chair:
Ms. Maya Marinov-Shiffer (ISA Israel)

In October 2017, Committee 6 on Credit Rating Agencies published its final report on *Other CRA Products*, which provides market participants with a better understanding of non-traditional products and services offered by credit rating agencies (CRAs), such as private ratings, bond indexes, and portfolio assessment tools. Although these products and services are distinct from commonly identified issuer-paid or subscriber-paid traditional credit ratings, they may be used by market participants to make investment and other credit-related decisions.

Committee 6 concludes that these products and services should be responsive to the spirit of the four high-level objectives outlined in the *IOSCO Principles Regarding the Activities of Credit Rating Agencies*. The objectives relate to the quality and integrity of the rating process, independence and conflicts of interest, transparency and timeliness of ratings disclosure, and confidential information.

In 2017, the committee also began work on outsourcing and cloud computing. The purpose of this work is to obtain a better understanding of how outsourcing integrates with cloud computing, and how CRAs use outsourcing and cloud computing and incorporate them in their organizational strategies and structures.

Committee 7 on Derivatives

Committee Chair:
Mr. Eric Pan (US CFTC)
Committee Vice Chair:
Mr. Paul Willis (UK FCA)

Committee 7 focuses on developments in derivatives markets. It was created through the merger of the former Committee 7 on Commodity Derivatives Markets with the Task Force on OTC Derivatives (OTCD Task Force) following the completion of the work of the OTCD Task Force on ISDA Credit Derivatives Determinations Committees and CDS auction processes in October 2017. Following the merger, Committee 7 brings together expertise in both derivatives markets and commodity derivatives markets.

In the year, Committee 7 conducted follow-up work to its 2016 report on *The Impact of Storage and Delivery Infrastructure on Commodity Derivatives Market Pricing*. The 2016 report concluded that the *IOSCO Principles for the Regulation and Supervision of Commodity Derivatives Markets* provided an adequate framework for implementing effective oversight, governance, and operational controls of storage facilities, and no additional principles were required. However, the report did identify practices that, if not addressed, could affect derivatives pricing and efficient market operation. The 2017 follow-up work seeks to lend certainty, consistency, and transparency to the operation and, where applicable, to the oversight of storage and delivery infrastructures.

In October, the then OTCD Task Force issued a Public Statement after completing its work on ISDA Credit Derivatives Determinations Committees and CDS auction processes. The statement summarized the general conclusions of the OTCD Task Force´s research and highlighted the need to promote transparency, while creating an incentive for the DC Secretary and the Auction Administrators to improve their processes, governance, and transparency. The OTCD Task Force also noted that further work may be warranted to monitor recent changes to the ISDA Determinations Committee and CDS auction processes and to consider any additional matters identified by IOSCO.

Committee 8 on Retail Investors

Committee Chair:
Mr. José Alexandre Vasco (CVM Brazil)
Committee Vice Chair:
Mr. Pasquale Munafó (CONSOB Italy)

Established in June 2013, the Committee on Retail Investors (C8) has a primary mandate to conduct IOSCO's policy work on retail investor education and financial literacy, and a secondary mandate to advise the IOSCO Board on emerging retail investor protection matters and to conduct investor protection policy work as directed by the Board.

Policy Work:

Committee 8 made progress on two key projects in 2017: its work on senior investor vulnerability and the application of behavioral insights to investor programs and initiatives.

For the first project, Committee 8 examined the growing vulnerability of aging investors to financial fraud and other risks and identified sound practices for enhancing their protection.

The Committee also highlighted that seniors are at a higher risk than other investors of losing money to fraud

or of being misled by others. It found that the biggest risks to senior investors are unsuitable investments, financial fraud, and their diminished cognitive capability which affects their financial decision-making. Complex products, deficient financial literacy, and social isolation pose additional risks to senior investors.

Committee 8´s work on the second project on behavioral insights drew, in part, on the results of two surveys of the members of both IOSCO and the Organization for Economic Co-operation and Development International Network on Financial Education (OECD/INFE). The surveys sought to discover the extent to which behavioral insights are used to guide financial literacy and investor education policies and practice.

IOSCO was to issue reports with the results of both workstreams in 2018.

World Investor Week

IOSCO held its first World Investor Week in October 2017. Coordinated by Committee 8, the event served to raise awareness worldwide about the importance of investor education and protection. Securities regulators and other stakeholders from more than 80 countries from across the globe took part in this event-- each one with an array of activities designed to raise awareness. Given the success of the initiative, IOSCO will stage the second World Investor Week in October 2018.

Cross-Committee and Collaborative Work

A growing body of IOSCO work spans various policy committees, as regulators find it increasingly useful to examine pressing issues from different market perspectives. Work on such issues as Initial Coin Offerings and cryptocurrencies, cyber-resilience, third-party suppliers, and investor protection require the collaboration of different Board committees to give a fuller picture of the risks and challenges that regulators, investors, and other market participants face in a rapidly changing financial landscape.

Retail OTC Leveraged Products

The report by Committee 3 on Regulation of Market Intermediaries on the offer and sale of retail OTC leveraged products (see the section on Committee 3 above) led to further work in this area in 2017. Issued in December 2016, the Committee 3 report described misconduct by licensed and unlicensed firms offering these products on a cross-border, predominantly online basis, raising deep concerns about the impact on retail investor protection.

In response, the Board approved in June 2017 three complementary workstreams on retail OTC leveraged products that involved the participation of four IOSCO policy committees.

- development of a toolkit of policy measures with guidance for the relevant products (led by Committee 3);
- development of a toolkit of investor education material with guidance about the relevant products (led by Committee 8 on Retail Investors); and
- creation of a working group led to explore issues and challenges raised by unlicensed retail business in these products (led by Committee 4 on Enforcement and Cooperation).

This work also included the collaboration of Committee 7 on Derivatives.

Initial Coin Offerings

At its meeting in October 2017, the IOSCO Board discussed the risks arising from the growing use of Initial Coin Offerings (ICOs) to raise capital, which raised investor protection and other concerns. Following the meeting, IOSCO issued a statement to its members regarding the risks of ICOs and describing various approaches that members and other regulatory bodies have adopted to deal with these offerings. This statement was followed by a public press release alerting investors and others to the risks associated with ICOs and listing similar alerts issued by IOSCO members.

The IOSCO Board established in September 2017 an ICO Consultation Network through which members exchange information, discuss their experiences with monitoring and regulating ICOs, virtual tokens, and virtual token exchanges, air their concerns over cross-

border issues and diverse aspects of these offerings, and discuss other developments in this area.

Data Analysis Group

In October 2017, IOSCO established a Data Analytics Group to allow members to share information and ideas about using technical advances in the area of data analytics to enhance their regulatory and supervisory work. Since then, the data analytics group has held conference calls in which members present on the use of data analytics in their organizations, and share news on the latest advances in the field of applying data analytics to regulatory and supervisory work.

Outsourcing and Third-party Suppliers

Market participants, trading venues, and market infrastructures have long relied on suppliers to carry out or support their regulated businesses. Given the growing importance of these providers, four IOSCO policy committees began work in 2017 on a project on outsourcing and third-party suppliers in financial markets, each one in a different area, including post-trade, secondary markets, market intermediaries, and credit rating agencies, while coordinating with each other.

The project seeks to identify the risks and regulatory issues around outsourcing of products, services, and critical systems.

Task Forces

Board Level Task Force on Financial Benchmarks

Task Force Chair:
Mr. Edwin Schooling Latter (UK FCA)

In 2017 IOSCO drafted a statement, published on 5 January 2018, that sets out matters for users of financial benchmarks to consider in selecting an appropriate benchmark and in contingency planning, particularly for scenarios in which a benchmark is no longer available.

The objective of the statement is to raise awareness of how the proper selection and use of benchmarks contribute to embedding sound benchmark practices in the financial system.

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.

In response to the problems affecting major interbank lending rates, the IOSCO Task Force published in July 2013 the *Principles for Financial Benchmarks* (Principles). The aim was to create 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 Principles are a set of recommended practices that should be implemented by benchmark administrators and submitters. They were endorsed by the G20 Leaders at their St Petersburg Summit in 2013 as global standards for financial benchmarks and continue to serve as guidance to jurisdictions globally.

Task Force on Market Conduct

Task Force Chair:
Mr. Ashley Alder (Hong Kong SFC)
Task Force Vice Chair:
Mr. Nick Miller (UK FCA)

The *IOSCO Task Force on Market Conduct* published a report in June 2017 describing the tools and approaches that IOSCO members use to discourage, identify, prevent, and sanction misconduct. The work was based on the belief that misconduct by individuals can undermine investor trust and confidence and the fair and efficient operation of wholesale markets, which are an important source of finance for companies and economic growth.

The IOSCO Task Force Report on Wholesale Market Conduct explains how market regulators seek to minimize misconduct risk arising from particular characteristics of wholesale markets, such as a decentralized market structure, opacity, conflicts of interest involving market makers, size and organizational complexity of market participants, and increasing automation.

Relevant tools to address this risk include tailored enforcement and remedial sanctions, such as orders to participate in market structural reforms or agreed remediation and other undertakings; surveillance and data analysis to detect suspicious trades; and the protection of whistle-blowers.

Some tools are designed to facilitate the sharing of information to track so-called bad apples -- individuals with poor conduct records who frequently move from one company to another. Others seek to ensure individual responsibility and accountability, such as liability or clear allocation and mapping of senior management´s responsibilities, and address increased automation, such as regulation of high frequency trading and direct electronic access.

Compensation Experts Group

Chair:
Mr. Paul Andrews (IOSCO Secretary General)

At its meeting in Lima in May 2016, the IOSCO Board approved the creation of a small group on compensation in the securities sector comprised of members from various policy committees. The objective of the Compensation Experts Group (CEG) was to complement the work of the Task Force on Market Conduct, created in 2015, and analyze compensation-related issues from a securities markets perspective.

After conducting a survey and hosting an industry roundtable jointly with the Financial Stability Board (FSB) on compensation practices, the CEG contributed its findings to the Fifth FSB Progress Report on Compensation. The progress report was submitted to the G20 ahead of its summit in July 2017. IOSCO published a summary of the key takeaways from the roundtable in April 2017.

Infrastructure Working Group (IWG)

Task Force Chair:
Mr. Paul Muthaura (CMA Kenya)

The Infrastructure Working Group (IWG), created in 2015, organized a roundtable on 10 January 2017 in Madrid to gather feedback from industry and multilateral development banks on aspects of capital market regulation that could be improved to enhance infrastructure finance.

The roundtable findings indicated that securities regulation can play an enabling role for market-based infrastructure financing but only when critical pre-conditions are met. While securities regulators have little influence over these factors, they could work in collaboration with governments and other stakeholders able to introduce tax and other incentives to encourage market-based infrastructure finance. From a regulatory perspective, the IWG identified the need for a stable regulatory framework promoting disclosure and transparency.