

Report on the Assessment Committee

- > Chair: **Mr. Amarjeet Singh, Chief General Manager, Securities and Exchange Board of India, India**
- > Vice Chair: **Mr. Jean Lorrain, Director, International Affairs, Autorité des marchés financiers, Quebec**

IOSCO continues to monitor implementation of its Principles and Standards through several different work streams and a diversified toolkit of measures aimed at balancing the needs of developed and emerging markets efficiently. At the same time, IOSCO plans to conduct more intensive reviews of selected key reform areas related to the securities markets.

In 2017, the IOSCO Assessment Committee (AC) used various tools to work towards its goal of promoting full, effective, and consistent implementation of the IOSCO Principles and Standards.

During the year, AC sought to deliver impactful and meaningful outcomes relevant to all IOSCO stakeholders through its work on several projects. The main achievements of the AC during 2017 are the following:

1. Revisions to IOSCO Principles and Assessment Methodology
2. Progress on Thematic Reviews
3. Launch of a new project on IOSCO Standards Implementation Monitoring (ISIM) on Secondary and Other Market Principles
4. Contributions to G20 and Financial Stability Board priority reform areas
5. Capacity Building for Self-Assessments
6. Country Reviews
7. Collaboration with the FSB on the Implementation Monitoring Network (IMN) Survey

Revisions to IOSCO Principles and Assessment Methodology

The IOSCO Objectives and Principles of Securities Regulation (Principles) and Methodology for Assessing Implementation of the IOSCO Objectives and Principles of Securities Regulation (Methodology) are standards recognized by the Financial Stability Board (FSB) as being key to sound financial systems. Their implementation is a priority.

The revisions to the IOSCO Principles and Methodology were completed in 2017 to keep the core Principles and Methodology updated and relevant by aligning

them with recent IOSCO standards or reports. The important revisions included areas pertaining to commodity derivatives, OTC derivatives, collective investment schemes, Principles relating to systemic risk, and financial benchmarks.

Progressing Thematic Reviews

On 27 July 2017, IOSCO published the AC's *Thematic Review of the Adoption of the Principles set forth in IOSCO's Report: Recommendations Regarding the Protection of Client Assets*. The thematic review identifies the implementation progress of 38 IOSCO members from 36 jurisdictions in adopting legislation, regulation, and other policies related to intermediaries holding client assets. In general, the Review found that, as of the date of reporting, the majority of participating jurisdictions had adopted, in general, a client asset protection regime as described by the Principles. The Review Team noted that the progress of implementation varied by jurisdiction.

The AC initiated a new thematic review on implementation of the recommendations made by IOSCO in *Suitability requirements with respect to the distribution of Complex Financial Products*. The IOSCO risk outlook identified the offer of complex financial products as an important risk. The IOSCO report published in January 2013 set forth nine principles regarding customer protection, focusing on the intermediaries' responsibility to assess customer suitability and provide disclosure of complex financial products. The AC has been more ambitious in this thematic review and the objective is to move beyond adoption monitoring and to conduct a deeper level 2 review. The AC will be assessing the consistency in implementation of the reforms against the IOSCO recommendations (consistency review).

ISIM on Secondary and Other Market Principles

The AC has developed IOSCO Standards Implementation Monitoring (ISIM) as a new tool to monitor the implementation of the IOSCO Principles and Standards by member jurisdictions. The first ISIM is being conducted on secondary and other market Principles (Principles 33 to 37).

The ISIM will allow IOSCO to present a global overview of implementation of the Principles by members and gather useful feedback on the subject. In contrast to Country Reviews, the ISIM is less resource intensive and covers various jurisdictions rather than just one. The ISIM is relevant for both developed and emerging market jurisdictions. A total of 38 jurisdictions (40 members) are participating in this review.

The first ISIM exercise is expected to be completed in 2018.

Contributions to G20 and Financial Stability Board priority reform areas

The AC has been contributing to FSB annual updates on progress by FSB jurisdictions in implementing the money market fund (MMF) and securitization reforms, which are aimed at transforming shadow banking into resilient market-based finance, one of the priority reform areas identified by the G20 and the FSB.

In November 2017, IOSCO published two update reports (*Update to the IOSCO Peer Review of Regulation of Money Market Funds* and *Update to the IOSCO Peer Review of Implementation of Incentive Alignment Recommendations for Securitisation*) to reflect the progress made by IOSCO members in 2016 and 2017 in adopting the MMF and securitization reforms respectively.

The AC also deliberated on the proposal for conducting a next level (consistency review) thematic review on MMF reforms.

Capacity Building (CB) for Self-Assessments

The AC has developed this new program for the purpose of promoting implementation of the IOSCO Principles. The program is targeted towards IOSCO member jurisdictions seeking to better understand and use the IOSCO Methodology. The workshop entails training on use of the IOSCO Methodology to identify gaps in regulation, procedures and processes, and ultimately to foster implementation of international standards.

The CB program has been divided into three Phases to make it result oriented:

- i. **Phase 1:** (three days in-person). AC experts will provide detailed training on how to complete a self-assessment. All 38 Principles will be included in this training.
- ii. **Phase 2:** (desk-based). Workshop participants would be expected to apply what they learned from the training and conduct actual self-assessments in their jurisdictions.
- iii. **Phase 3:** (three days in-person). Workshop participants to report back and make presentations on their self-assessments after six to eight months. This phase will include valuable feedback from AC experts on any gaps or difficulties encountered by participants while completing the self-assessment.

The AC's ultimate goal in providing this training is to assist IOSCO members in capacity building and undertaking self-assessments with a view to encouraging full, effective and consistent implementation of Principles and Standards across IOSCO's membership.

Country Reviews

In addition to the above activities, the AC completed a Country Review of Sri Lanka, which was published in June 2017. The Country Review identified the progress made by Sri Lanka Securities and Exchange Commission (SEC) in implementing the IOSCO Principles and identified areas requiring further reforms. The Country Review identified challenges that the SEC faces in meeting international regulatory standards relating to the design and operation of its regulatory framework.

The AC also progressed the follow up review of Pakistan.

Collaboration with FSB on the IMN Survey

Since 2015, IOSCO has been collaborating with the FSB's Implementation Monitoring Network (IMN) to conduct the IMN survey of FSB jurisdictions. This work reports on the status of implementation of G20/FSB post-crisis recommendations in areas not designated as a priority under the FSB Coordination Framework for Implementation Monitoring (CFIM).

The AC assumed responsibility for analyzing and reporting on the following areas of the survey



regarding reforms in securities markets: hedge funds, securitization, improving oversight of credit rating agencies, enhancing market integrity and efficiency; and regulation and supervision of commodities markets.

This annual exercise was completed in July 2017 and reported to the G20 Leaders' Summit that month.

Further, in November 2017, IOSCO published its own separate report *Implementation Report: G20/FSB Recommendations related to Securities Markets* which

provided additional insight into and analysis of the reform areas relevant to securities regulators.

Coming year

The year 2017 was highly productive for the AC. The AC will continue to deliver on its mandate during 2018. The projects for 2018 include:

- i) progressing two thematic reviews, already approved by the IOSCO Board, on (a) Suitability



- Requirements with respect to the distribution of Complex Financial Products; and (b) two related IOSCO reports from 2015 relating to Business Continuity and Recovery Planning;
- ii) completing the first pilot ISIM on Secondary and Other Market Principles (Principles 33 – 37);
- iii) completing all three phases of the capacity building program for self-assessments; and

- iv) engaging with the FSB on annual updates / next level reviews on priority reform areas (MMF and securitization) and the IMN survey of securities market related reform areas.

The AC will continue to think about innovative ideas for achieving the high level objective of encouraging full, effective and consistent implementation of Principles and Standards across IOSCO membership.

The IOSCO MMoU/EMMoU Screening Group

- > Chair: **Mr. Jean-François Fortin (Québec AMF)**
- > Vice Chair: **Ms. Jane Attwood (UK FCA)**

The *IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (MMoU)* and the *Enhanced Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (EMMoU)* represent a common understanding among its signatories of how they should consult, cooperate, and exchange information for the purpose of regulatory enforcement regarding securities markets.

The Screening Group is tasked with reviewing MMoU/EMMoU applications to establish whether applicants meet the requirements for becoming signatories to either the IOSCO MMoU or the EMMoU. At the same time, the IOSCO General Secretariat offers guidance and other assistance to non-signatories to encourage them to move forward with their applications.

MMoU

In 2017, six IOSCO members signed the MMoU, bringing the total number of signatories to 115 by year end, out of a total of 143 eligible members at that time:

- > Financial Services Regulatory Authority (FSRA) Abu Dhabi
- > Comissão do Mercado de Capitais (CMC) Angola
- > Capital Markets Authority (CMA) Kuwait
- > Superintendencia del Mercado de Valores (SMV) Panama
- > Qatar Financial Centre Regulatory Authority (QFCRA) Qatar
- > Capital Markets Authority (CMA) Uganda

Another two members signed in January 2018:

- > Central Bank of Armenia (CBA)
- > Securities and Exchange Commission (SEC) Zambia

In mid-January, 12 members were listed on Appendix B, the list of members who lack the legal authority

to fully comply with the MMoU provisions but are committed to becoming signatories. One member was in an initial review process. At that time, almost all of the 13 ordinary members that remained non-signatories to the MMoU had taken steps to address through legislative amendments the issues preventing them from complying with the MMoU requirements.

The growing number of signatories has increased cross-border cooperation, enabling regulators to investigate a growing number of insider traders, fraudsters, and other offenders.

Enhanced MMoU

The current MMoU has set the benchmark for international cooperation among securities regulators in enforcement matters. By facilitating information sharing and cooperation, the MMoU enables the detection and prosecution of fraud and illegal conduct, deters wrongdoers, and prevents regulatory arbitrage.

But since 2002, when the current MMoU was established, significant change has swept across financial markets, driven by new technologies and regulation and the growing role of market-based finance in the global economy. These changes propelled IOSCO to develop an enhanced standard that goes beyond the MMoU and takes into account these recent market developments.

At the annual meeting in Lima in May 2016, the IOSCO Presidents Committee adopted a resolution approving



the text of the Enhanced MMoU (EMMoU). In March 2017, IOSCO launched the 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.

The ACFIT powers, as they are known, will enable members to:

A: Obtain and share **Audit** work papers, communications, and other information relating to the audit or review of financial statements;

C: **Compel** physical attendance for testimony (by being able to apply a sanction in the event of non-compliance);

F: **Freeze** assets if possible or, if not, advise and provide information on how to freeze assets, at the request of another signatory;

I: Obtain and share existing **Internet** service provider records (not including the content of communications), including with the assistance of a prosecutor, court, or other authority, and to obtain the content of such communications from authorized entities; and

T: Obtain and share existing **Telephone** records (not including the content of communications), including with the assistance of a court, prosecutor, or other authority, and to obtain the content of such communications from authorized entities.

In addition, the EMMoU envisages the obtaining and sharing of existing communications records held by regulated firms.

The EMMoU as approved by the Presidents Committee has two appendices for classifying signatories:

- > Appendix A.1 listing signatories that hold the ACFIT powers; and
- > Appendix A.2 listing signatories that hold the ACF powers.

Securities regulators have been required to sign the MMoU to become members of IOSCO. The MMoU will remain in effect as long as any signatories wish to use it. In that case, jurisdictions will co-operate under the instrument to which both are signatories. However, the long term objective is for all MMoU signatories to migrate eventually to the EMMoU.

The General Secretariat began accepting EMMoU applications from members on 3 April 2017 and 12 jurisdictions had submitted their applications by year end.





Capacity Building

IOSCO Asia-Pacific Hub

IOSCO inaugurated its Asia Pacific Hub in Kuala Lumpur in March 2017. Hosted by the Securities Commission (SC) Malaysia, this initiative establishes IOSCO's first regional hub to deliver capacity building activities for securities markets regulators.

Under the supervision of the IOSCO Secretary General, the Hub enables IOSCO to leverage on the experience, expertise, and infrastructure of its membership to foster market development and enhance connectivity and inclusiveness in the Asia Pacific region.

The Hub's launch responds to a growing demand among IOSCO members for enhanced capacity building, particularly in growth and emerging markets. The need to expand the regulatory capacity of IOSCO members is intensifying amid the growing complexity of financial markets, increasing technological innovation, and rising cross-border activity. These developments pose challenges for regulators, increasing the need for IOSCO members to enhance their regulatory expertise and hone their ability to oversee and supervise markets.

The Hub held its inaugural two-day workshop *on Leveraging Behavioural Economics for Investor Education and Investor Protection* on 3-4 October 2017, coinciding with IOSCO's World Investor Week 2017. The Workshop was designed to help regulators identify behavioral insights that could help increase the effectiveness of investor education and financial literacy initiatives. The Workshop also reviewed the approaches that regulators use globally to apply behavioral insights to investor initiatives. Thirty-one participants from 20 jurisdictions participated in the Workshop.

During the SC's *Digital Finance Conference on Democratising Investments* in November 2017, the Hub permitted IOSCO members to view relevant sessions of the Conference via live stream. The conference focused on the adoption of technology to digitalize capital market products and services, and featured experts on various topics such as digital investment services, the future of financial services ecosystem, and promoting more inclusive markets.

The Hub organized the IOSCO Assessment Committee's inaugural Self-Assessment Workshop in January 2018



to foster the implementation of the IOSCO Principles of Securities Regulation. The implementation of a robust framework for securities regulation will help strengthen the capacity of regulators in identifying possible gaps in regulation, procedures, and processes, and in meeting international standards and best practices. Conducted by experts from IOSCO's Assessment Committee, the three-day Workshop attracted 23 participants from 14 jurisdictions.

Technical Assistance

IOSCO launched its Technical Assistance program in 2017 with two projects. The first was to assist five members selected from the Africa/Middle East Regional Committee (AMERC) in developing onsite inspection manuals; the second was to assist five members selected from the Inter-American Regional Committee (IARC) to develop enforcement manuals. These projects respond to the priority needs identified through surveys of IOSCO members in the AMERC and IARC regions.

Superintendencia del Mercado de Valores, Dominican Republic hosted the first phase of the IARC project

in Santo Domingo, in November 2017. The following onsite phase for this project was hosted by the Superintendencia del Mercado de Valores, Panama in Panama City in March 2018.

For the AMERC region, Capital Markets Authority, Kenya hosted the first phase of the project in Nairobi in November-December 2017. The following onsite phase for this project was hosted by the Securities and Exchange Commission of Zambia in Livingstone in February 2018.

IOSCO launched an Online Toolkit in March 2016 to assist its members in their efforts to develop and implement effective regulatory frameworks for capital markets regulation. The Online Toolkit had two initial components - risk based supervision and enforcement, which were the two top priorities identified by growth and emerging markets members. Each component has detailed modules on the subject matter, a description of IOSCO standards and reports, case studies and members' practices, webinars and presentations, a bibliography, and academic research. In 2017, IOSCO began work on four new components for the Online Toolkit, expected to be completed in 2018.

