

# Activities of IOSCO's Policy Committees in 2018

The IOSCO Board reviews various 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, all of which work 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;
- > Derivatives; and
- > Retail Investors.

In addition to the eight policy committees, the Growth and Emerging Markets (GEM) Committee seeks to develop and improve the efficiency of emerging

markets through the introduction of recommendations, guidance or standards, the provision of training programs for members' regulatory staff and 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 of protecting investors, maintaining fair, efficient and transparent markets and mitigating systemic risk.

In addition to the policy committees, several Board-level task forces examined key ongoing and emerging issues in the financial markets. They included the following:

- > The Board-level Task Force on Financial Benchmarks
- > Cyber Task Force
- > Board Sub-Group on Data Protection
- > Follow-up Group to the 2015 Cross-Border Regulation Task Force



# Policy Committees

## Committee 1 on Issuer Accounting, Audit and Disclosure

Committee Chair:

**Chair: Mr. Makoto Sonoda (FSA Japan)**

Committee Vice Chair:

**Mr. Nigel James (US SEC)**

The Committee 1 on Issuer Accounting, Audit and Disclosure 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 which were further strengthened in 2016.

IOSCO currently chairs the Monitoring Board (MB) that oversees the IFRS Foundation. It holds a second seat on the MB which is held by a representative from the Growth and Emerging Markets Committee.

IOSCO believes that international auditing standards have 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) and participates in their respective Consultative Advisory Groups (CAGs). In 2018, the committee submitted a comment on the IAASB's strategy for the future.

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

IOSCO is a founding member and current Chair 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. IOSCO also acts as the secretariat to the Monitoring Group and its members - the Basel Committee on Banking Supervision, the European Commission, the Financial Stability Board, the International Association of Insurance Supervisors, the International Forum of Independent Audit Regulators, the World Bank and IOSCO.

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 set 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, in early 2018, the Monitoring Board held four roundtable discussions on the proposed reforms in Johannesburg, London, Washington DC, and Singapore. During the consultation period, the MG received 180 comment letters. The MG plans to publish a second consultation paper or white paper in 2019, following extensive outreach and engagement with stakeholders. The paper will include a proposal for a new audit related standard-setting model.

### **Other Activities in 2018**

In December 2018, IOSCO published the consultation report on *Good Practices for Audit Committees in Supporting Audit Quality*, which is intended to assist audit committees of issuers of listed securities in promoting and supporting audit quality. The *final report* was published in January 2019.

Committee 1 also prepared an IOSCO Statement setting out the importance for issuers of disclosing information on environmental, social and governance (ESG) matters to aid investors in their investment decisions. The *Statement on Disclosure of ESG Matters by Issuers* was published in mid-January 2019.

## **Committee 2 on Regulation of Secondary Markets**

Committee Chair:

**Ms. Tracey Stern, (Ontario Securities Commission)**

Committee Vice Chair:

**Mr. Liuyi Pi (CSRC China)**

Committee 2 on Regulation of Secondary Markets examines 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 not only on investor protection but also on issues that relate to fair and efficient markets and the integrity of markets.

### **Bond Market Liquidity and Transparency**

Since the 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 a final report on secondary corporate bond market liquidity in 2017 and followed up with final recommendations to improve transparency in these markets in April 2018.

The report on corporate bond market liquidity 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.

In April 2018, IOSCO published a final report titled *Regulatory Reporting and Public Transparency in the Secondary Corporate Bond Markets* that recommends regulatory authorities analyze how to enhance pre-trade transparency in corporate bond markets and implement regimes that require post-trade transparency. The committee began further work on liquidity in secondary markets in 2019.





### Recommendations to help trading venues manage extreme volatility

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 undermine investor confidence. To mitigate these effects, Committee 2 issued eight high-level recommendations in August 2018 to assist trading venues and regulatory authorities in implementing mechanisms to manage extreme volatility. The final report, *Mechanisms Used by Trading Venues to Manage Extreme Volatility and Preserve Orderly Trading*, recommends that trading venues use volatility control mechanisms to manage extreme volatility and that they appropriately calibrate and monitor these mechanisms.

### Provision of Services relating to Critical Systems by Third-Party Service Providers

In late 2018, the IOSCO Board approved a mandate for cross-committee work to examine the risks associated with the use of third-party service providers and review the current IOSCO Principles on Outsourcing given recent trends and market developments. Work carried out by Committee 2, Committee 3 on the Regulation of Market Intermediaries, Committee 6 on Credit Rating Agencies and Committee 7 on Derivatives indicated that some market participants, trading venues and market infrastructures outsource a range of critical services or material activity to third-party providers, often to reduce costs or improve competitiveness in today's increasingly automated and interconnected

markets. (See section below on collaborative work among IOSCO policy committees).

### The regulation of platforms trading crypto assets

In December 2018, the IOSCO Board approved a mandate for Committee 2 to examine the regulation of platforms trading crypto assets. In May 2019, the committee issued the consultation paper, *Issues, Risks and Regulatory Considerations Relating to Crypto Asset Trading Platforms*, after analyzing the regulatory approaches currently being applied or considered by its member jurisdictions.

### Committee 3 on Regulation of Market Intermediaries

Committee Chair:

**Ms. Claire Kütemeier (BaFin Germany)**

Committee Vice Chair:

**Ms. Mhairi Jackson, (UK FCA)**

Committee 3 on Regulation of Market Intermediaries seeks to promote investor protection and market efficiency through its recommendations on issues related to market intermediaries.

### Report on Retail OTC Leveraged Products

In 2018, Committee 3 continued to lead IOSCO's crucial work to identify and address the risks arising from the offer and sale of OTC leveraged products to retail clients. (For more information see section below on collaborative work among IOSCO policy committees).

## Conflicts of interest and associated conduct risks during the equity capital raising process

In September 2018, Committee 3 issued a final report on *Conflicts of interest and associated conduct risks during the equity capital raising process*, which describes the main stages of the equity raising process in which the role of intermediaries might give rise to conflicts of interest. The report also sets out guidance for regulators to address conflicts of interests that may occur when intermediaries manage an equity security offering. The guidance comprises eight measures grouped according to the various stages in the capital raising process. Implementation of the guidance is expected to materially improve the equity raising process by enhancing the scope and quality of timely information made available to investors during equity capital raising, increasing the transparency of allocations and improving the efficiency and integrity of the overall process.

In 2019, Committee 3 began work on the second phase of this project, which entails examining conflicts of interest and associated conduct risks during the debt capital raising process.

## The Use of Artificial Intelligence in the Context of Market Intermediaries

In 2018, Committee 3 carried out a fact-finding exercise on the extent to which market intermediaries deploy artificial intelligence (AI) and machine learning (ML) and to identify the potential issues they may encounter. The committee also gathered information on the rules or guidance in member jurisdictions that apply to the use of AI and ML technologies and drafted a mandate for further work in this area, which was approved by the Board in early 2019.

## Provision of Services relating to Critical Systems by Third Party Service Providers

Committee 3 members agreed at their meeting in Hong Kong in December 2017 to commence work on outsourcing. C3 is coordinating with Committees 2, 6 and 7, which are also currently working on outsourcing/third-party service providers, in the cross-committee drafting group established after the Board meeting in February 2018. This group, comprised of representatives from all committees currently carrying out work on outsourcing, submitted a mandate proposal which was approved by the Board in late 2018. (See section on collaborative work among IOSCO policy committees).

## Committee 4 on Enforcement and Exchange of Information

Committee Chair:

**Mr. Jean-Francois Fortin (Québec AMF)**

### Enforcement Cooperation

In 2018, Committee 4 on Enforcement and Exchange of Information continued 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)*, which is 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 2018, six IOSCO members signed the MMoU, bringing the total number of signatories to 121 by year end, out of a total of 150 eligible members at that time.

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. By the end of 2018, 11 members had become signatories to the EMMoU. (For more information on the MMoU and the EMMoU, please see MMoU/EMMoU Screening Group in the chapter on Implementation and the MMoU).

### Initiative to raise standards of cross-border cooperation with selected non-member jurisdictions

Committee 4 engages non-member jurisdictions interested in joining IOSCO and the MMoU, as part of its mandate. Over the years, its efforts have proved successful, as some of those jurisdictions have become IOSCO members and signatories to the IOSCO MMoU. C4 also implements strategies to support aspiring signatories, including enlisting the assistance of other bodies such as the IMF, with the backing of the General Secretariat. Currently, two jurisdictions are making significant progress with the help of IMF Technical Assistance at the recommendation and request of the IOSCO General Secretariat.



### Information sharing on technological tools

Regulators around the world are working to improve their technological systems and tools to detect market misconduct. To aid regulators in this task, Committee 4 agreed to organize an annual conference to enable IOSCO members to share existing data analytics practices and techniques used to address enforcement issues, discuss opportunities for using technology in enforcement matters and propose tools to develop in this area.

In 2018, the Swiss Financial Market Supervisory Authority (FINMA) hosted the second edition of the Technology Applied to Securities Markets Enforcement Conference.

### Contributions to the Board's mandate on OTC leveraged products

In June 2017, the IOSCO Board approved a proposal to undertake three complementary workstreams to follow up on Committee 3's 2016 report on OTC leveraged

products. Committee 4 created a working group to examine the challenges posed by unlicensed firms offering these complex products to retail investors or carrying out fraudulent schemes on a cross-border basis. (See section below on collaborative work among IOSCO policy committees).

### Emerging Digital Threats

Committee 4's work on emerging digital threats arose from its discussions on how to contribute to IOSCO's work on initial coin offerings (ICOs) from an enforcement perspective. It agreed to broaden the scope of its work on ICOs to include emerging digital threats, on the premise that wrongdoers will increasingly use new technologies to engage in inappropriate behavior.

As part of this work, Committee 4 built an emerging digital threats portal for IOSCO members, which it plans to launch in 2019. The portal will help members respond to the threats posed by emerging digital activities in global capital markets.



## Committee 5 on Investment Management

Chair:

**Mr. Robert Taylor (UK FCA)**

Committee Vice Chair:

**Ms. Vanessa Casano (AMF France)**

### Work on Structural Vulnerabilities in Asset Management Activities

In 2018, the work of IOSCO's Committee 5 on Investment Management focused in large part on identifying risks associated with market liquidity and other potential vulnerabilities in asset management activities, such as leverage, that could impact financial stability. The committee 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. IOSCO published the first

report of its work for the FSB, *Findings of the Survey on Loan Funds*, in February 2017.

### SWG1- Data Gaps

The objective 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. In November 2018, Committee 5 published for public consultation a proposed framework to help measure leverage used by investment funds which, in some circumstances, could pose financial stability risks.

The framework, proposed in the *IOSCO Report: Leverage*, comprises a two-step process aimed at achieving a meaningful and consistent assessment of global leverage. The first step indicates how regulators could exclude from consideration funds that are unlikely to create stability risks to the financial system while filtering and selecting a subset of other funds for further analysis.



The second step calls for regulators to conduct a risk-based analysis of the subset of investment funds identified in the first step.

### **SWG2- Liquidity Management**

In February 2018, Committee 5 issued *Recommendations for Liquidity Risk Management for Collective Investment Schemes*, which seek to improve liquidity risk management practices of open-ended collective investment schemes (CIS).

The recommendations are grounded on the belief that the implementation of robust liquidity risk management programs is the best defense for companies against structural vulnerabilities. To supplement its recommendations, Committee 5 published simultaneously the report, *Open-ended Fund Liquidity and Risk Management – Good Practices and Issues for Consideration*, which provides practical information, examples and good practices regarding open-ended fund liquidity risk management.

### **ETF-related Work**

In 2018, Committee 5 undertook exploratory work for a thematic review of the existing operations, regulatory practices and potential issues relating to ETFs. Based on the analysis of the thematic review, the committee drafted a mandate for further work on ETFs, with a focus on investor-related issues and arbitrage and trading, which was approved by the Board in the last quarter of 2018.

### **Other Work**

In 2018, Committee 5 began collecting data for its fifth IOSCO Hedge Fund Survey, which will provide an overview of the hedge fund industry based on data as of 30 September 2018.

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

## **Committee 6 on Credit Rating Agencies**

Committee Chair:

**Ms. Rita Bolger (US SEC)**

Committee Vice Chair:

**currently vacant**

In 2018, Committee 6 on Credit Rating Agencies (CRAs) contributed to IOSCO's cross-committee project on outsourcing. Committee 6's objective is to gain a better understanding of how outsourcing integrates with cloud computing and how CRAs incorporate both in their organizational structure and strategies.

Committee 6 is currently on a watching brief status.

## **Committee 7 on Derivatives**

Committee Chair:

**Mr. Paul Willis (UK FCA)**

Committee Vice Chair:

**Mr. Kevin Fine (OSC Ontario)**

Committee 7's work 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) in late 2017.

### **Commodity Storage and Delivery Infrastructures**

In July 2018, IOSCO requested feedback from stakeholders on proposed good or sound practices to assist relevant storage infrastructures and their oversight bodies to identify and address issues that could affect commodity derivatives' pricing and in turn affect market integrity and efficiency. The report, *Commodity Storage and Delivery Infrastructures: Good or Sound Practices*, proposes the adoption of the good or sound practices by all relevant storage infrastructures, their oversight bodies and financial regulators in IOSCO member jurisdictions, as appropriate to their role and activities.

The final report was published in February 2019.

### **Updated survey on compliance with the Principles for the Regulation and Supervision of Commodity Derivatives Markets**

In November 2018, IOSCO published the findings of an *updated survey* that showed IOSCO members to be broadly compliant with the *IOSCO Principles for the Regulation and Supervision of Commodity Derivatives Markets* (The Principles). These principles were issued in 2011 to help ensure that commodity derivatives markets can facilitate price discovery and hedging activity while avoiding manipulation and abusive trading.

The report published in 2018 was the third review conducted by IOSCO of the implementation of the principles, following previous reviews conducted in 2012 and 2014.





IOSCO expects that this report will be its final implementation review.

### Efficient Resilience

In 2017, the IOSCO Board agreed to examine regulatory reforms in OTC derivatives markets to determine whether any aspects of the G20 reforms may have resulted in *inefficient* market resiliency. For this work, in 2018, Committee 7 identified two areas for further investigation:

*Market structure:* The committee is looking at the possible impact of OTC derivatives reforms on the structure of OTC derivatives markets and on associated services such as trade reporting, clearing, platform trading and calculation of margin for non-centrally cleared derivatives.

*Trade reporting:* The committee is seeking to understand the practical effects of different reporting schemes and is investigating whether different reporting schemes capture data that is reliable and useful. Committee 7 is examining both the implementation of individual reforms and the outcome produced by the interaction of different reforms.

The committee held a roundtable in Singapore in November 2018 with Asian industry representatives and organized similar meetings in 2019 with stakeholders in Europe and the US.

### Other Work

In 2018, Committee 7 analyzed the risks associated with third-party providers in the following areas: trade matching and confirmation; portfolio reconciliation; portfolio compression; collateral management; trade reporting; and credit limit checking. This work formed part of the cross-committee mandate approved by the Board in October.

## Committee 8 on Retail Investors

Committee Chair:

**Mr. José Alexandre Cavalcanti Vasco (CVM Brazil)**

Committee Vice Chair:

**Mr. Pasquale Munafó (CONSOB Italy)**

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

In 2018, Committee 8 published two key reports on senior investor vulnerability and the application of behavioral insights to investor programs and initiatives.

The first report, entitled *Senior Investor Vulnerability*, published in March 2018, examines the growing vulnerability of aging investors to financial fraud and other risks and identifies sound practices for enhancing their protection. The report reveals that seniors are at a higher risk than other investors of losing money to fraud or of being misled by others. It also indicates that the biggest risks to senior investors are unsuitable investments, financial fraud and a diminished cognitive capability that affects their financial decision-making. Complex products, deficient financial literacy, and social isolation pose additional risks to senior investors.

The report provides a list and description of sound practices for both regulators and financial services providers and includes a non-exhaustive bibliography of literature that may be helpful to regulators and others.

In May 2018, IOSCO published the second report jointly with the OECD, which was entitled *The Application of Behavioural Insights to Financial Literacy and Investor Education Programmes and Initiatives*. This report examines how findings from behavioral sciences can be used to develop investor education and financial literacy initiatives that may be more effective than traditional programs, largely because they mitigate the effects of behavioral biases. Behavioral sciences focus on the way individuals think and behave, based on empirical evidence from a range of social sciences, such as economics, psychology and social marketing, as well as from other fields like neuroscience.

The report draws on an extensive literature review of strategies that use behavioral insights to break down the barriers to satisfactory or rational decision making and nudge consumers towards better financial planning and investment. The report also builds on the input from more than 80 IOSCO and OECD/INFE (International Network on Financial Education) member institutions and includes a wide variety of practical applications of behavioral insights. It also provides various approaches for regulators, policy makers and practitioners to choose from when considering whether and how to apply behavioral insights.

Committee 8 also undertook further work in this area after the Board approved a proposal in March 2018 for a report on how regulatory authorities can employ behavioral insights to enhance retail investor protection.

In March 2018, the Board approved a proposal for Committee 8 to develop jointly with OECD/INFE a core competencies framework on financial literacy for investors.

During the year, Committee 8 also contributed to IOSCO's work on the offer and sale of OTC Leveraged Products to retail investors. *(See section below on collaborative work among IOSCO policy committees).*

### **World Investor Week**

IOSCO held its second World Investor Week in October 2018. Coordinated by Committee 8, the event once again 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, World Investor Week is now an annual event.

### **Cross-Committee and Other Collaborative Work**

A growing body of IOSCO work spans various policy committees, as regulators find it increasingly useful to examine pressing issues from various perspectives and gain a fuller picture of the risks and challenges that regulators, investors and other market participants face in a rapidly changing financial landscape. In addition to the collaborative work conducted on outsourcing and third-party suppliers and retail leveraged OTC products, IOSCO members also shared information and experiences on fintech, initial coin offerings, sustainability and data analytics through IOSCO networks.

### **Fintech Network**

IOSCO established the Fintech Network in May 2018 to enable IOSCO members to collaborate on fintech issues, consolidate specific fintech expertise across the organization, share information and experiences among members and bring substantive issues to the Board. The network has members from over 50 jurisdictions and a Steering Group (SG) of Board members to oversee and direct its work. After it conducted exploratory work, the SG clarified its mission and set out four priority themes that it proposed to focus on in its initial work program: distributed ledger technology, the ethics of artificial intelligence/machine learning, regtech and supotech and lessons learned from financial innovation hubs and similar efforts.

### **Sustainable Finance Network**

The Board established the Sustainable Finance Network (SFN) in October 2018, to provide members with a forum to exchange experiences, gain a better understanding of, and have structured discussions on, sustainability issues. To date, members have addressed the details of issuer disclosures and their relevance to investor decision making and the extent to which industry-led initiatives have been implemented, among other things. The SFN also allows members to discuss the rationale for securities regulators and supervisors to address these issues, the roles they can play and the challenges they may face.

IOSCO's focus on sustainable finance matters is consistent with the broader attention these issues are receiving at the international level. Many organizations, regulators and policy forums have launched sustainable finance work streams and various bodies and associations have issued regulatory and voluntary standards relating to sustainable finance issues. The SFN will review these different initiatives to understand how these efforts relate to the role and work of securities regulators within this area.

### **Initial Coin Offerings**

In September 2017, the IOSCO Board established an ICO Consultation Network through which members exchange information, discuss their experiences with monitoring and regulating initial coin offerings, virtual tokens and virtual token exchanges, share their concerns over cross-border issues and other developments related to ICOs.

In May 2018, the Board agreed to develop a Support Framework to assist members as they address domestic and cross-border issues stemming from initial coin offerings that could impact investor protection or market integrity. To further increase regulatory capacity in this area, the Support Framework collects materials to assist members to look beyond the marketing labels of ICOs to focus on the substance of these offerings and whether they are designed to minimize regulatory scrutiny.

### **Data Analytics 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

In many jurisdictions, financial firms are increasingly compelled by intensifying competition and the growing complexity of markets to reduce costs and improve efficiency, often by outsourcing critical services or material activity to third-party providers. Work undertaken by various IOSCO policy committees indicated that some market participants, trading venues and market infrastructures may be relying to a significant extent on outsourcing critical services or material activity to third-party providers.

In February 2018, the Board established a cross-committee drafting group comprised of members from Committee 2 on Secondary Markets, Committee 3 on Market Intermediaries, Committee 6 on Credit Rating Agencies, Committee 7 on Derivatives to conduct work on outsourcing. The Board approved a mandate for this initiative in October 2018.

The objective of this project is two-fold. First, it seeks to gain a better understanding of the recent developments in the use of third-party service providers. Second, it aims to evaluate where the existing IOSCO Principles on Outsourcing may not adequately address these developments and to update them where appropriate.

### Retail OTC Leveraged Products

In 2018, Committee 3 on Regulation of Market Intermediaries continued to lead IOSCO's efforts to identify and address the risks arising from the offer and sale of OTC leveraged products to retail clients. In February, the committee published the consultation paper entitled *Report on Retail OTC Leveraged Products*, which built on the committee's 2016 report analyzing offers of rolling spot forex contracts, contracts for differences and binary options and the risks they pose to retail investors.

In September 2018, IOSCO published its final *Report on OTC leveraged products*, which sets out measures for securities regulators to consider when addressing the risks arising from the marketing and sale of these complex products to retail investors. The report includes three complementary toolkits contributed by Committee 3, Committee 8 on Retail Investors and Committee 4 on Enforcement and the Exchange of Information. The toolkits include:

- > policy measures to address the risks arising from the marketing and sale of OTC leveraged products by intermediaries (Committee 3);

- > material for educating investors about the risks of OTC leveraged products and the firms offering them (Committee 8); and

- > enforcement approaches and practices to mitigate the risks posed by unlicensed firms offering the products (Committee 4).

Simultaneously, the Board issued a public statement on the risks of binary options and the responses of regulators for mitigating the risks and harm to retail investors that transact in these products.

### Board Level Task Force on Financial Benchmarks

Task Force Chair:

**Mr. Edwin Schooling Latter (UK FCA)**

In January 2018, IOSCO issued the *Statement on Matters to Consider in the Use of Financial Benchmarks* that sets out matters for users of financial benchmarks to take into account when 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.

Since publication of the Benchmark Principles, IOSCO has conducted several reviews of their implementation, as well as guidance aimed at helping Benchmark Administrators increase the consistency and quality of the reporting on their compliance with the Principles.



**Board Sub-Group on Data Protection  
Sub-Group Chair, Maureen Jensen, (Ontario OSC)**

The Board agreed in 2016 to establish a Board-level Sub-Group chaired by Maureen Jensen, Chair and CEO of the Ontario Securities Commission, to develop with Committee 4 an IOSCO-wide strategy for addressing data protection issues arising from the European data privacy regime (GDPR) that went into effect in May 2018.

After months of negotiations, the European Data Protection Board and the sub-group approved an administrative arrangement in February 2019 that enables EU and non-EU regulators to continue exchanging information in a manner that is consistent with the GDPR.

**Board level Cyber Task Force**

The IOSCO Board approved in February 2018 a mandate for the Cyber Task Force to review the guidance for the three most prominent international cyber standards, conduct a gap analysis to determine how IOSCO member jurisdictions apply such standards or guidance and draft a report setting out the task force's findings.

The task force formed a drafting group to conduct an initial review of the standards and develop a survey, which it circulated to ordinary members in June 2018. Over 60 responses were received and the final report by the *Cyber Task Force* was published in June 2019.

**Follow-up Group to the 2015 Cross-Border Regulation Task Force**

**Follow-up Group co-Chair: Jun Mizuguchi (Japan FSA)  
Co-Chair: Louis Morisset (AMF Quebec)**

In December 2018, the IOSCO Board approved the mandate for a Follow-Up Group (FUG) to the 2015 Cross-Border Regulation Task Force, after identifying market fragmentation as a priority issue for IOSCO in 2019.

The FUG conducted a survey of Board members to identify the potential causes of market fragmentation and address this and other new developments in cross-border regulation that may have taken place since the publication of the 2015 Report on Cross-Border Regulation (including within the OTC derivatives market). In June 2019, the IOSCO Board published the report on *Market Fragmentation & Cross-border Regulation*.

