

# Assessment Committee

- > Chair: **Mr. Jean Lorrain, Director, International Affairs, Autorité des marchés financiers, Québec**
- > Vice Chair: **Mr. Liam Mason, Director of Regulation, Financial Markets Authority, New Zealand**

**The IOSCO Assessment Committee (AC) monitors implementation of IOSCO Principles and Standards. It recognizes that IOSCO’s effectiveness as a standard setter ultimately lies in the effective implementation of the Objectives and Principles of Securities Regulation and other IOSCO standards.**

In 2018, the AC pursued its objective of achieving full, effective and consistent implementation of IOSCO Principles through the following projects:

1. Thematic reviews;
2. A Standards Implementation Monitoring (ISIM) review of Secondary and Other Market Principles;
3. Contributions to the G20 and Financial Stability Board (FSB) on progress updates of priority reforms;
4. Capacity building for self-assessments; and
5. Collaboration with the Financial Stability Board on the Implementation Monitoring Network (IMN) Survey.

## Progress on Thematic Reviews

The AC advanced work on its thematic review of implementation of the nine Principles on customer protection set out in the 2013 report *Suitability requirements with respect to the distribution of Complex Financial Products*. Unlike other thematic reviews, the AC’s work on suitability requirements has moved beyond adoption monitoring to assess the consistency in implementation of the reforms against the IOSCO recommendations.

In November 2018, the IOSCO Board approved a thematic review of IOSCO’s reports on *Market Intermediary Business Continuity and Recovery Planning (BCP Report)* and *Mechanisms for Trading Venues to Effectively Manage Electronic Trading and Plans for Business Continuity (Trading Venues Report)*. This effort is assessing the consistency of implementation by participating jurisdictions of the:

1. two standards for regulators in the BCP Report regarding business continuity plans;



- two recommendations for regulators in the Trading Venues Report aimed at ensuring that trading venues can manage identified risks effectively by having mechanisms that safeguard the integrity, resiliency and reliability of their critical systems and business.

IOSCO expects all Board and Assessment Committee members to participate in this thematic review and invites all other IOSCO member jurisdictions to do the same.

In April 2018, the IOSCO Board approved a thematic review on the consistency in implementation of money market funds (MMF) reforms. This review will assess

seven out of 15 policy recommendations included in the *Policy Recommendations for Money Market Funds 2012 Report*. It will also describe the legislative, regulatory and policy measures that jurisdictions have taken. Those seven recommendations refer to valuation, liquidity management and MMFs that offer a stable Net Asset Value. This review will cover nine jurisdictions that account for more than 90% of global MMF.

### **ISIM on Secondary and Other Market Principles**

In 2017, the AC launched the IOSCO Standards Implementation Monitoring (ISIM) as a new tool for



member jurisdictions to monitor the implementation of the IOSCO Principles and Standards.

In 2018, the AC conducted the first ISIM on Secondary and other Market Principles (IOSCO Principles 33 to 37). The main objective of the exercise was to establish a global overview of the implementation status of each of the five Secondary and Other Market Principles by 38 participating member jurisdictions, based on their self-assessments.

In early 2019, the AC published a report indicating that the implementation of IOSCO's Secondary and Other Market Principles is generally high across most of the member jurisdictions that the committee reviewed.

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.

The second ISIM project will cover the implementation of Principles Related to the Regulator (Principles 1-5) across IOSCO members from both emerging and developed jurisdictions. Work on this project begins in 2019.

### **Contributions to G20 and Financial Stability Board updates on priority reform areas**

The AC contributes to the annual updates on progress by FSB jurisdictions in implementing the reforms for money market funds and securitization —priority areas for the G20 and FSB. The reforms are part of an international effort to strengthen the structural resilience of capital markets.

### **Capacity Building (CB) for Self-Assessments**

To promote the full, effective and consistent implementation of IOSCO Objectives and Principles of Securities Regulation, the Assessment Committee offers a capacity building program to assist members in using the IOSCO Methodology to conduct a self-assessment of their progress.

This new program targets IOSCO member jurisdictions seeking to understand and use the IOSCO Methodology more efficiently to identify gaps in regulation, procedures and processes and, ultimately, to achieve full implementation of international standards.

The CB program is divided into three Phases to be result-oriented:

1. Phase 1: (workshop, three days in-person). AC experts provide detailed training on how to complete a self-assessment. This training covers all 38 IOSCO Principles. The Asia Pacific Hub hosted this workshop in Kuala Lumpur in January 2018.
2. Phase 2: (desk-based). Workshop participants are expected to apply what they learn from the training and to conduct actual self-assessments in their jurisdictions. Participants completed this phase in November 2018.
3. Phase 3: (three days in-person). After six to eight months, the AC expects workshop participants to report back to its experts and make presentations on their self-assessments. In this phase, the experts provide valuable feedback on any gaps or difficulties that participants encounter while completing their self-assessments. Dubai hosted this workshop in December 2018.

### **Country Reviews**

In March 2018, the AC published a follow-up *Country Review of the Islamic Republic of Pakistan*. The follow-up review considered the progress made by Pakistan in adopting the recommendations in a 2015 assessment review of Pakistan's implementation of the IOSCO Objectives and Principles of Securities Regulation. The follow-up focused on implementation of 14 IOSCO Principles that the 2015 review noted as deficient. It recognized Pakistan's efforts to adopt legislative and regulatory reforms aimed at aligning its regulations with international standards in accordance with IOSCO Objectives and Principles.

### **Collaboration with the FSB on the IMN Survey**

In 2015, IOSCO began collaborating with the FSB's Implementation Monitoring Network (IMN) on the annual IMN survey of FSB jurisdictions. This work considers 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 is responsible for analyzing and reporting on several key areas of the survey relating to reforms in securities markets, including hedge funds, securitization, oversight of credit rating agencies, enhancing market integrity and efficiency, and regulation and supervision of commodities markets.



# The IOSCO MMoU/EMMoU Screening Group

> Chair: **Mr. Jean-François Fortin (Québec AMF)**

**Securities regulators use the *IOSCO Multilateral Memorandum of Understanding*<sup>2</sup> and its updated version, the *Enhanced IOSCO MMoU (EMMoU)*, to help ensure effective global regulation around the world. The MMoUs represent a common understanding of how their signatories should consult, cooperate and exchange information to combat cross-border fraud and misconduct in securities markets.**

The MMoU Screening Group is tasked with reviewing MMoU/EMMoU applications to establish whether applicants meet the requirements for becoming signatories to these key IOSCO documents. Simultaneously, the IOSCO General Secretariat offers guidance and other assistance to non-signatories to encourage them to move forward with their applications. Since 2005, IOSCO requires securities regulators to sign the MMoU to become an Ordinary member.

## MMoU

In 2018, six IOSCO members signed the MMoU, bringing the total number of signatories to 121 by year end, out of a total of 141 eligible members at that time:

- > Central Bank of Armenia (CBA), Armenia
- > Comisión para el Mercado Financiero (CMF), Chile
- > Superintendencia del Mercado de Valores (SIMV), Dominican Republic
- > Securities and Exchange Organization (SEO), Iran
- > National Bank of Kazakhstan (NBK), Kazakhstan
- > Securities and Exchange Commission (SEC), Zambia

IOSCO listed nine others on Appendix B, the list of members who have formally committed to seek the legislative and administrative changes necessary for achieving MMoU compliance, and one member was in an initial review process. In total, ten Ordinary

members remained non-signatories to the MMoU at the end of 2018.

The growing number of signatories has led to greater cross-border cooperation, enabling regulators to investigate an increasing number of matters involving insider trading, fraud and other offenses. In 2006, a total of 526 requests for assistance were made pursuant to the MMoU; in 2018, that figure rose to 4,064.

## Enhanced MMoU

Since it was established in 2002, the MMoU has been the benchmark for international cooperation among securities regulators in enforcement matters. By facilitating information sharing and cooperation, the MMoU supports IOSCO members in their efforts to detect and prosecute fraud and illegal conduct, deter wrongdoing and prevent regulatory arbitrage.

Despite this success, financial markets have undergone sweeping changes since 2002, driven by new technologies, regulation and the growing role of market-based finance in the global economy. In 2017, IOSCO established an enhanced MMoU (EMMoU) to respond to the impact of these developments on securities markets and IOSCO members' enforcement efforts.

The EMMoU provides for additional enforcement powers that IOSCO believes are necessary to continue to safeguard the integrity and effectiveness of markets, protect investors and deter misconduct and fraud.

<sup>2</sup>The complete name is the Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information.

The General Secretariat began accepting EMMoU applications from members on 3 April 2017. By the end of 2018, ten jurisdictions had signed the EMMoU and another six had submitted their applications. All EMMoU applicants were signatories to the MMoU.

The MMoU will remain in effect for as long as any signatory wishes to use it. While the MMoU remains in operation, jurisdictions will cooperate under the instrument to which both are signatories. However,

the long-term objective is for all MMoU signatories to migrate eventually to the EMMoU.

In 2017, the IOSCO Secretariat proposed creating a web-based system for collating the MMoU/EMMOU statistics, to improve the collection process. IOSCO unveiled this new system known as the Stats Automation System in December 2018 and used it to collect the MMoU/EMMOU Statistics for 2018.



# IOSCO Capacity Building

**In recent years, IOSCO has worked intensively to meet the capacity building needs of its members, particularly those from emerging market jurisdictions. By strengthening the regulatory and supervisory proficiency of its members, IOSCO aims to ensure their ability to implement globally agreed standards and maintain robust securities markets that serve as drivers of sustained economic growth.**

IOSCO surveys its members on a regular basis to identify their capacity building needs and fashion its programs around member preferences. The 2017 education and training survey highlighted the growing demand among members for training on fintech, risk-based supervision, enforcement cooperation, derivatives and corporate governance. The survey also indicated a keen interest on the part of members to enhance their understanding of IOSCO's core principles, particularly the Principles on Enforcement of Securities Regulation and the Principles for Financial Market Infrastructures. IOSCO tailored many of its capacity building programs in 2018 to members' needs as reflected in the results of the 2017 survey.

In 2018, IOSCO offered its members a choice of training seminars at the new IOSCO Capacity Building Hub in Kuala Lumpur and a host of education and training events organized by the IOSCO General Secretariat, the Growth and Emerging Markets Committee and the Affiliate Members Consultative Committee.

## Education and Training Programs

### **IOSCO/PIFS-Harvard Law School Global Certificate Program for Regulators of Securities Markets**

In 2016, IOSCO joined forces with the Program on International Financial Systems at Harvard Law School to launch the first edition of the Global Certificate Program for Regulators of Securities Markets, an executive education program tailored exclusively to the needs and circumstances of securities markets regulators.

The initiative is divided into two phases: a two-week session at IOSCO's Madrid headquarters and a second one-week session at Harvard Law School in Cambridge, Massachusetts. Speakers are experienced securities regulators, academics specialized in financial markets

and others with extensive legal or technical knowledge of international financial systems.

In June 2018, some 90 members from 40 different jurisdictions attended Phase I in Madrid, which covered the fundamentals of securities regulation and compliance.

Phase II was conducted at Harvard Law School in Cambridge, Massachusetts on 3-7 December 2018 and focused on current and future regulatory challenges and emerging issues. Harvard academics, securities regulators and leading public policy makers taught the classes.

Since the program began three years ago, more than 270 IOSCO members have enrolled. By the end of the year, 131 members had completed the full three-week program -- including the required online learning material and the modules of the IOSCO Capacity Building Online Toolkit -- and earned a certificate.

### **IOSCO Seminar Training Programs (STP)**

For over 20 years, IOSCO has organized an annual three to four-day seminar training program at its headquarters in Madrid. Designed for junior to mid-level securities regulators, the program typically focuses on topics that reflect the needs of members as identified in training needs analyses. In November 2018, some 95 members from 45 different jurisdictions attended the 2018 STP on Investment Funds Regulation and Supervision.

### **IOSCO Regional Seminar Training Programs**

IOSCO regularly organizes two to three-day training programs for members from its four regional committees, often based on the themes of the STP held in Madrid but tailored to regional needs. In January 2018, IOSCO organized a program in Dubai on Investment

# “Appropriate Regulation of People Handling Other Peoples’ Money”

Two Sections:

- Regulatory Approaches and Activities of the People Who Handle Other Peoples’ Money (Investment Advisers and Holders of Money)
- Investment Advisers Who Have Entered into Advisory Relationships







Funds Regulation and Supervision, which drew a large audience from the Africa/Middle-East region.

#### **Joint IOSCO-Financial Stability Institute (FSI) Seminars**

Since 2006, IOSCO has organized an annual three-day training program with the Financial Stability Institute of the Bank for International Settlements. Open to both securities regulators and bank supervisors, the program generally covers trading book issues and market infrastructures, as well as other topics of common interest on a cross-sectoral basis.

The 13th IOSCO/FSI Conference on Trading Book Issues and Market Infrastructure was jointly hosted in November 2018 in Basel. The program was attended by over 100 securities regulators and banking supervisors from 40 jurisdictions and focused on the regulatory, legal and compliance issues around trading

books in banks and related market infrastructure for trading activities. Subject matter experts discussed the work by CPMI and IOSCO regarding cyber resilience of CCPs, benchmark reform, the fundamental review of the trading book by the Basel Committee on Banking Supervision, as well as digital innovations, cryptocurrencies and cyber issues.

#### **IFIE-IOSCO Global Investor Education Conference**

Since 2007, IOSCO and the International Forum for Investor Education (IFIE) have organized joint conferences that bring together representatives of regulatory bodies, central banks, self-regulatory organizations, exchanges and other organizations entrusted with implementing financial capability and investor education strategies and programs. The discussions help participants better understand how to strengthen the execution of these programs and strategies around the world.



In April 2018, IOSCO and IFIE celebrated their 10th joint Conference entitled *Building Lifelong Financial Resiliency in a Changing Environment*. Hosted by the Japan Securities Dealers Association (JSDA) in Tokyo, the conference focused on improving the financial resilience of individuals and the organizations that serve them. The Conference addressed emerging trends, including cryptocurrency and initial coin offerings (ICOs), demographic challenges and the development of fintech.

### **IOSCO AMCC Training Seminars**

IOSCO's Affiliate Members Consultative Committee (AMCC) organizes an annual training seminar, open to all IOSCO members. This seminar offers regulators and industry representatives the opportunity to exchange ideas and experiences and consider regulatory issues and events from different market perspectives.

More than 90 IOSCO members attended the 11th edition of the AMCC Training Seminar hosted by the International Swaps and Derivatives Association (ISDA) in London in October 2018. Regulators and market participants covered eight critical topics; OTC Derivatives, G20 Commitments, Enforcement and Investigation, Data Analytics, Analysis and Tools, Cybersecurity, Surveillance, Ethics and Retail Protection Measures.

### **GEMC Regulatory Workshops**

Every year, IOSCO's GEM Committee organizes a day of regulatory workshops on topics of interest to growth and emerging markets and which often complement and support the work of the IOSCO Board.

At its 2018 Annual Conference in Budapest, the GEMC organized three regulatory workshops on the *Role of Artificial Intelligence and Machine*

*Learning in the Future of Financial Services; Crypto Currencies & Initial Coin Offerings (ICOs) – Trends, Risks and Regulatory Implications; and The Rise of ETFs as an Asset Class -- A fast growing industry underpinned by strong innovation.* Also, at the 2018 GEMC Conference in Cayman Islands, the committee organized two regulatory workshops on: *Derivatives Markets and Implications to GEMC Jurisdictions* and *Derivatives Financial Reforms and Practical Implications.*

### **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 allows IOSCO to deliver capacity building activities to securities markets regulators in a specific region.

Under the supervision of the IOSCO Secretary General, the Hub enables IOSCO to leverage on the experience, expertise and infrastructure of its membership to promote market development and enhance connectivity and inclusiveness in the Asia Pacific region. It also serves to strengthen the regulatory and supervisory capacity of the region's securities regulators.

As an example of its activities, in August 2018, the Hub together with the Asia Pacific Group on Money Laundering (APG) held a two-day workshop on *Countering Money Laundering and Terrorism Financing in Securities Markets.* Delivered by subject matter experts, the two-day workshop focused on emerging AML/CTF (anti-money laundering and combating the financing of terrorism) risks in securities markets and the regulatory and supervisory issues they raise. The Workshop also reviewed how to apply the Financial Action Task Force Recommendations to securities markets and provided an assessor's perspective on complying with these recommendations. The Workshop attracted 50 participants from 23 developed and emerging market jurisdictions.

In November 2018, the Hub organized another two-day workshop on *Leveraging Behavioural Economics for Investor Education and Investor Protection.* The workshop provided the 33 participants with a better understanding of the principles behind behavioral economics and reviewed how behavioral sciences can be further integrated into the context of regulatory work. It also complemented IOSCO and OECD/INFE's joint report on behavioral insights published earlier in 2018. Attention was given to the implications of financial technologies and the application of behavioral insights in areas such as crypto assets and ICOs.

Finally, the Hub also offered video podcasts on *Leadership and Governance; Fintech and Implications on Regulations; and OECD Equity Market Review Asia 2018.*

## **Technical Assistance Program**

IOSCO's Technical Assistance Program (TAP) is designed to provide modular technical assistance programs to help regulators implement IOSCO Principles and meet the requirements of the IOSCO Multilateral Memorandum of Understanding on cooperation and exchange of information.

The modules serve as the basis for delivering technical assistance programs that are tailored to members' needs. The TAP is organized in three modules covering: onsite inspection manuals; enforcement manuals; and the MMoU.

In addition to the modules, the TAP offers workshops on the practical application of the onsite inspection and enforcement manuals. The objective is to encourage members to use the manuals in their daily activities to enhance the efficiency and effectiveness of supervision and enforcement in the participating jurisdictions. The Securities Commission of Bahamas organized the first workshop in November 2018, focusing on enforcement manuals for the Inter-American Region (IARC).

### **Module 1 – Onsite Inspection Manuals**

Here, the aim is to develop manuals for IOSCO members in different regions to use during the on-site inspection process for the supervision of investment firms and asset managers. The manuals include, among other things, the templates and the steps for the inspection team to follow when preparing, performing and following up on the onsite inspections. By the end of the program, each participating member completes an onsite inspection manual for its jurisdiction.

In 2018, IOSCO focused on five selected jurisdictions from the Asia-Pacific Region (APRC) -- including Brunei, Maldives, Papua New Guinea, Sri Lanka and Vietnam. The first onsite phase took place in Colombo, Sri Lanka in July 2018 and the second onsite phase was held in Hanoi, Vietnam in the following October.

### **Module 2 – Enforcement Manuals**

The objective of this module is to develop enforcement manuals for IOSCO members in different regions to use during the enforcement process in their specific jurisdictions. The manuals include detailed information

about the approach to enforcement; conduct of investigations; investigative practices; cooperation; privileges and protection; and settlement.

In 2018, the program focused on eight selected jurisdictions from the Africa/Middle-East Region (AMERC) -- including Ghana, Kenya, Mauritius, Rwanda, Swaziland, Tanzania, Uganda and Zambia. The first onsite phase took place in December 2018, organized by FSC Mauritius. The SEC Ghana organized the next onsite phase for March 2019.

### Module 3 - MMoU

Securities regulators around the globe use the IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (MMoU) to address cross-border fraud and misconduct, which can weaken global markets and undermine investor confidence. Established in May 2002, the MMoU sets out specific requirements for the exchange of information and

provides a mechanism through which IOSCO members share essential investigative material.

Signing the IOSCO MMoU is a prerequisite to becoming an IOSCO ordinary member. But becoming an MMoU signatory often proves to be a challenge for many members, particularly for emerging markets that may need expertise to propose needed legal reforms.

Responding to this need, IOSCO assists members in their efforts to sign the MMoU by guiding them through the process. It provided assistance to Uzbekistan in 2018 and to Botswana and Cambodia in 2019.

### Capacity Building for Self-Assessments

In 2018, the Assessment Committee offered a three-phase project called *Capacity Building for Self-Assessments Program*.

(See the section on the Assessment Committee for more information.)

