



# Annual Report 2018

INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS



**OICU-IOSCO**

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INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS



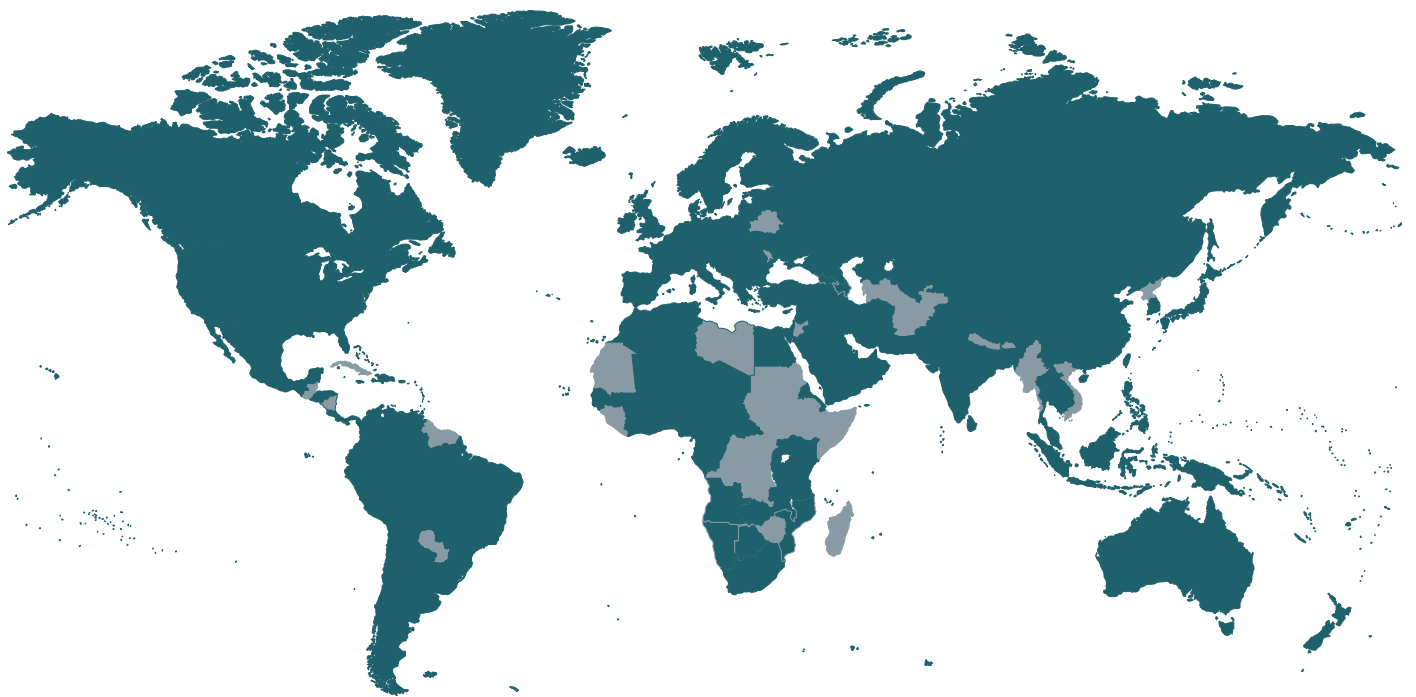


# IOSCO OBJECTIVES

- to cooperate in developing, implementing and promoting adherence to internationally recognized and consistent standards of regulation, oversight and enforcement to protect investors, maintain fair, efficient and transparent markets and to mitigate systemic risks;
- to enhance investor protection and promote investor confidence in the integrity of securities markets, through strengthened information exchange and cooperation in enforcement against misconduct and in the supervision of markets and market intermediaries; and
- to exchange information at both global and regional levels on their respective experiences to assist the development of markets, strengthen market infrastructure and implement appropriate regulation.



# I O S C O M E M B E R S H I P



IOSCO MEMBERSHIP



NON-MEMBER JURISDICTIONS

Note: The following two organizations are ordinary members:

1. The **West African Monetary Union (WAMU)**, which comprises Benin, Burkina Faso, Ivory Coast, Guinea-Bissau, Mali, Niger, Senegal, and Togo.
2. The **Commission de Surveillance du Marché Financier de l'Afrique Centrale (COSUMAF)**, which comprises Cameroon, Central African Republic, Congo, Gabon, Equatorial Guinea, and Chad.

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## Report from the Chair of the IOSCO Board

### Mr. Ashley Alder

- > Chair of the IOSCO Board
- > Chief Executive Officer of the Hong Kong Securities and Futures Commission

I am pleased to report that we have made extremely good progress across all major work streams over the past year, as summarized in the Secretary General's report on pages 16 to 19.

### Priority setting

The major innovation for 2018 was the Board's decision to adopt a more effective priority-setting process to identify the areas where IOSCO would concentrate its efforts and resources each year. IOSCO now establishes these priorities based on the risks and trends set out in an annual Risk Outlook report, compiled by its Committee on Emerging Risks (CER). The CER gathers input from all IOSCO policy committees (and its four regional committees and the private sector organizations represented in IOSCO's Affiliate Members Consultative Committee (AMCC)) to produce a Risk Outlook for discussion at the last Board meeting of every year.

Board members are then expected to agree on the priorities for the following year, which form the basis for a detailed work plan. IOSCO also decided to issue a concise version of its internal work plan to the public each year, the first of which was issued in March 2019.

In 2018, improved transparency around priority-setting enabled all IOSCO stakeholders – whether in the public or private sector – to better contribute to IOSCO's policy output. It also helped ensure that most discussions within the IOSCO Board were devoted to substantive, difficult issues affecting global markets and were of real and pressing concern to members – rather than organizational and other internal matters that can usually be dealt with via other means.

This new approach helps ensure that IOSCO's annual work plan is of relevance to its very diverse membership, thereby encouraging more interaction between regulators from emerging and developed markets.

### IOSCO Board and other organizational matters

In 2019, IOSCO adopted a radically different format for the annual meeting of all members, known as the Presidents Committee. This takes place as part of each IOSCO Annual Meeting. For many years, the President's Committee has offered the sole opportunity for the entire membership to gather in one place, but was largely formulaic, with barely any interactive discussions or input from the floor. I wanted to convert this meeting into a *town hall* format, where the entire membership would have the opportunity to hear from, and direct questions to, the Board leadership and, crucially, the leaders of IOSCO's policy committees. Members would also have an opportunity to voice their opinions on what additional value IOSCO could provide to them, ranging from standard setting to capacity building.

The first meeting adopting this new format took place in Sydney in May 2019 and was very well received; IOSCO members took full advantage of the opportunity to openly debate crucial aspects of IOSCO's priority work. Discussions covered a wide range of issues, from crypto assets, fintech and sustainability to data privacy, asset management and retail distribution

and digitalization. We will adopt the same interactive approach at all future annual meetings.

Separately, recommendations made by a Board-level working group to better define the role and responsibilities of the IOSCO Secretary General were adopted earlier this year, further enhancing IOSCO governance. This was followed by an exercise to more precisely describe how the staff of the General Secretariat are deployed to provide essential support to all IOSCO work streams. This enables the Board and all policy committees to have a complete overview of how resources and expertise will be allocated across the projects set out in the annual workplan.

Since 2017, all Board meetings (save for that held at each IOSCO Annual Meeting) have been held at IOSCO headquarters in Madrid, as are many policy committee meetings. This has resulted in significant efficiency gains and lower costs for the IOSCO Secretariat.

## Growth and emerging markets

The Growth and Emerging Markets (GEM) Committee has continued to focus on topics such as fintech, financial inclusion and capacity building and is to be congratulated for issuing its wide-ranging report on Sustainable Finance in June 2019. I would especially like to thank Ranjit Ajit Singh, who led the GEM Committee from 2013 to 2018, for his unstinting commitment to ensuring that the emerging market voice was heard clearly by the broader IOSCO membership. His wise counsel will be missed. Ranjit stepped down in October 2018 when he retired as Chair of the Malaysia Securities Commission and is ably succeeded by Dr. Obaid Al-Zaabi, Chief Executive Officer of the UAE Securities and Commodities Authority.

## World Investor Week

On the investor protection front, following the success of the pilot World Investor Week (WIW) in 2017 and the second WIW campaign in 2018, the WIW will now be a permanent IOSCO workstream to promote and disseminate key messages about investor education, investor protection and financial literacy worldwide.

## Assessment Committee

The Assessment Committee (AC) process has been revised to be of more value to a larger number of IOSCO members. In 2018, the AC introduced workshops on *Capacity Building for Self-Assessments* to help members use the IOSCO Assessment Methodology to implement the IOSCO Principles and Standards more effectively in their jurisdictions. The process requires fewer resources by encouraging a broad cross section of

the IOSCO membership to undertake disciplined self-assessments. The AC has also been considering ways to simplify the text of the methodology for members and assessors. IOSCO considers these changes to be particularly beneficial to regulators in growth and emerging markets.

## IOSCO MMoU

In October 2016, an IOSCO Board Sub-group on Data Protection (Sub-group), led by Maureen Jensen, Chair of the Ontario Securities Commission, was formed to explore ways to ensure that EU and non-EU securities market regulators could continue to share information for enforcement purposes under the IOSCO MMoU,<sup>1</sup> notwithstanding the new personal data protection rules to be introduced in the EU under the EU General Data Protection Regulation (GDPR).

I am very pleased to say that, following prolonged but constructive negotiations between EU authorities and the sub-group, a ground-breaking arrangement was agreed in February 2019 that enables cross-border exchanges of enforcement information to continue with EU regulators in a manner that is consistent with the GDPR.

## The G20 and the Financial Stability Board (FSB)

I have made a special effort to ensure that attendees at the Financial Stability Board (FSB) Plenary and FSB Steering Committee meetings have a thorough understanding of the perspectives and remit of securities regulators. This includes explaining IOSCO's approach to taking forward the FSB's recommendations to address structural vulnerabilities in investment funds (arising from potential liquidity and redemption mismatches), as well as our current work on consistent measures of leverage in funds. Continued engagement with the FSB will remain a priority given its increased focus on financial stability risks in market-based finance and on technology in financial services.

For the 2018 – 2019 G20 agenda, the Japanese G20 Presidency identified risks arising from market fragmentation (in particular, fragmented markets that may be the unintended consequence of post-crisis regulation) and concerns about crypto assets, as areas of special focus. IOSCO moved rapidly to address both topics in 2019.

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<sup>1</sup>The IOSCO MMoU (the Multilateral Memorandum of Understanding) is a crucial mechanism through which more than 120 securities regulators obtain and exchange information across jurisdictional borders for enforcement purposes.



First, IOSCO's Follow Up Group (FUG) published a final report on Market Fragmentation in June 2019. This took as its starting point the report by IOSCO's Cross-Border Task Force issued in 2015. The Board will consider later in 2019 whether it should conduct further work, including on the difficult and politically sensitive topic of *deference*. This refers to methods by which regulators may decide to rely on each other to address risks arising in cross-border financial markets, thereby avoiding conflicting or duplicative regulation.

Second, IOSCO's Committee 2 on the Regulation of Secondary Markets published a consultation report on Crypto Asset Trading Platforms in May 2019, proposing a set of key considerations and a regulatory toolbox for those members whose remit extends to this sector. I had the opportunity to present both reports at the G20 Finance Ministers and Central Bank Governors meeting in June 2019. Both received a strong endorsement.

## CPMI-IOSCO

I co-chair the CPMI-IOSCO Steering Group with Benoît Cœuré, who is also Chair of the Committee on Payments and Market Infrastructures (CPMI).

The work of CPMI-IOSCO goes to the heart of the transformative regulatory reforms introduced in OTC derivatives markets in response to the 2008 financial crisis. In 2018, CPMI-IOSCO continued to pursue vital policy work to ensure that those reforms are implemented properly. Its recent efforts have concentrated on the safety and soundness of central counterparties (through which a large volume of OTC derivatives is now cleared), as well as on new governance arrangements and protocols to standardize the data relating to OTC derivative trading being reported to trade repositories. This enables regulators to better detect any unusual build-up of risks or indications of misconduct in this formerly opaque market.





## The Future

IOSCO will continue to coordinate work on subjects such as crypto assets and data analytics, lead on the important intersection between data protection and capital markets regulation, focus on risks arising from connections between the banking sector and capital markets and, more broadly, act as a forum to address the rapid evolution of data-centric financial services operating outside traditional formats. The need for regulators to adapt to the growing role of technology in financial services undoubtedly will dominate our future work. The priorities in our first published annual work plan are a testament to this.

IOSCO also needs to get ahead of and inform the broader discussions among Central Banks and Finance Ministries about new, perceived financial stability, systemic or prudential risks in market-based finance

and the potential responses to those risks. The Secretariat has been tasked to explore options for IOSCO to do more in this area.

And of course, this overview is only scraping the surface of our work; this annual report and the first annual work plan set out the full extent of an ambitious program of future projects.

IOSCO is a member-driven organization and therefore relies heavily on the contribution from, and expertise of, its members – particularly for its policy committees, working groups, task forces and networks. It also depends on the vital support provided by its General Secretariat based in Madrid. I would therefore like to thank all IOSCO members as well as the staff of the General Secretariat for your unflagging support and commitment to IOSCO's ambitious work program.



## Report from the Chair of the Growth and Emerging Markets (GEM) Committee

### Dr. Obaid Al Zaabi

- > Vice Chair of the IOSCO Board
- > Chair of the Growth and Emerging Markets Committee
- > Chief Executive Officer, Securities and Commodities Authority, United Arab Emirates

It is my pleasure to present this year's report of the Growth and Emerging Markets Committee. I succeeded Ranjit Ajit Singh of Malaysia as GEM Committee Chair in December 2018, after serving as Vice Chair. Under Mr. Singh, the GEM Committee undertook ambitious projects in sustainable finance, cybersecurity and regulatory capacity building. This work enabled members from growth and emerging market jurisdictions to provide the IOSCO Board with unique insight into these and other pressing issues.

### Enhancing GEM Regulatory Capabilities

In 2018, the GEM Committee concentrated on strengthening the regulatory capacity of its members and enhancing their ability to respond to major developments in global financial markets, such as new technologies and cyber risks. Members also examined other financial trends and developments that could impact global securities markets in growth and emerging markets, including the rise of crypto assets, artificial intelligence and machine learning, disintermediation and digitalization. These topics are also priorities for the IOSCO Board.

#### Cybersecurity

In April 2018, the GEM Committee issued an internal Guidance Note on *Cybersecurity for Regulators in Emerging Markets*, based on its findings at the GEM Regulatory Cyber Workshops held in Indonesia in January 2016 and Sri Lanka in September 2017. The note expands the regulatory capabilities and expertise of GEM Committee members regarding cybersecurity. This guidance was the first developed for securities regulators globally, with measures relating to governance frameworks and mechanisms and controls in this area. It

also offers guidance to members in detecting, responding to, and recovering from, cyber threats or attacks.

Additionally, the Guidance Note discusses approaches for enhancing international collaboration and information sharing as well as strengthening the regulatory capabilities of members in this area. It provides a basis for emerging market regulators to develop their own domestic cybersecurity policies.

Overall, this work supports IOSCO's efforts to address cybersecurity, which is one of the most significant challenges facing capital markets and the global financial system today.

#### Workshop on Derivatives Reform

The GEM Committee organized a Workshop on Derivatives Reform at its Annual Meeting in the Cayman Islands in September 2018. The workshop was conducted in collaboration with the International Swaps and Dealers Association (ISDA). During this event, participants analyzed the market implications of LIBOR's cessation, the recognition of trading venues and implementation of margin requirements for non-centrally cleared derivatives.



### IOSCO Data Sharing Platform

In March 2018, the GEM Committee launched Phase I of its Data Sharing Platform, an online tool that provides practical support to its members. The platform encourages members to share experiences and expertise related to operational data and practices, market data and legal and regulatory frameworks, among other subjects.

At its Annual Meeting in the Cayman Islands in September 2018, the GEM Committee unveiled Phase 2 of the platform. This phase entails additional and more sophisticated functionalities that allow users to view data on a map, build charts and compare the results of different jurisdictions. The platform is operational and gives a bird's eye view of the functions and capital market overview under the respective emerging market member jurisdictions

### Sustainable Finance

In recent years, the GEM Committee has been at the forefront of IOSCO's policy work on sustainable finance. In February 2017, the IOSCO Board agreed that one of its Focus Areas for 2017-2018 would address

*“analyzing the role of securities markets in capital-raising and sustainability issues, and the related role of securities regulation.”* In line with the Board Focus Area, the GEMC agreed to review the key issues and challenges for developing sustainable capital markets and the role that securities regulators can play in this effort.

To inform its work, the GEM Committee created a specialized working group in 2017 to survey members on the approaches and initiatives they use to facilitate sustainable finance in their jurisdictions. In July 2018, it organized a dialogue with regulators and stakeholders on *Sustainable Financing in Capital Markets* in London, which attracted 52 participants. In September of that year, the GEM Committee dedicated the public conference at its Annual Meeting to *Building Sustainable Capital Markets in a Digital Era*. It also organized a panel discussion on the challenges and opportunities of building sustainable capital markets.

The GEM Committee's efforts led to the publication of the report on *Sustainable finance in emerging markets and the role of securities regulators*, in 2019. This pioneering work proposed ten recommendations for emerging market member jurisdictions to consider when





issuing regulations or guidance regarding sustainable financial instruments and additional disclosure requirements of ESG-specific risks. The report seeks to help securities regulators understand and address the issues and challenges around the development of sustainable finance as a driver of economic growth in emerging market jurisdictions.

The GEMC work complements IOSCO's work on sustainability, such as the IOSCO Sustainable Finance Network and IOSCO's Statement on Disclosure of ESG Matters by Issuers, issued in January 2019.

### GEMC Annual Meeting

The Cayman Monetary Authority hosted the committee's Annual Meeting on 19 and 20 September 2018. As noted, the public conference focused on sustainable markets. Other panels at the meeting covered the risks

and regulatory implications of initial coin offerings, crypto currencies and the impact of passive investing on emerging markets. The GEM Steering Committee held its meeting on 20 September. Participants shared their experiences addressing issues in some GEM jurisdictions following a bout of debt and currency turmoil that impacted members' respective markets. The GEM Committee Plenary meeting followed later in the day. Members discussed sustainable finance, emerging risks and trends in GEM jurisdictions. They also reviewed initiatives to strengthen cooperation among regulators, including the launch of Phase II of the Data Sharing Platform and other capacity building activities.

Before closing, I would like to thank Ranjit Ajit Singh for his years of dedication to the GEM Committee. Our work in 2018 on sustainable finance and cybersecurity is a testament to his foresight and





commitment. Under my leadership, the GEM Committee will continue to serve its members while contributing valuable input to Board discussions on issues of interest to securities markets and regulators around the world.

promoting relevant market based responses to these issues. The Conference also discussed key factors impacting liquidity in emerging markets, as well as the effectiveness of measures in improving liquidity. Another important theme related to Fintech in capital markets is how emerging markets can leverage on innovative technology while ensuring robust regulatory frameworks.

This was the first time that the GEM Annual Meeting and Conference were held back to back with a regional committee meeting, in this instance the Asia-Pacific Regional Committee meeting. The events

brought together regulators from both emerging and developed markets, allowing for greater engagement and collaboration among the members. Future GEM Committee Annual Meetings are expected to be held back to back with other regional committee meetings. We look forward to having the next GEM Annual Committee Meeting and Conference in conjunction with the Inter-American Regional Committee Meeting in September 2018.

Finally, I would like to express my appreciation to the GEM Vice Chairs, Marcos Ayerra and Paul Muthaura, and members of the GEM Steering Committee for their contribution. I would also like to acknowledge the contribution of the IOSCO Secretary General and the GEM team at the General Secretariat. I look forward to GEM members actively participating in our work to continue the Committee's efforts and advance its important agenda.



## Report from the Chair of the Affiliate Members Consultative Committee (AMCC)

### Karen Wuertz

- > Chair of the Affiliate Members Consultative Committee
- > Senior Vice President, Strategic Planning and Development, National Futures Association

## Transition

This past year was a time of transition and succession for the Affiliate Members Consultative Committee (AMCC). José Carlos Doherty, CEO of ANBIMA, announced his plans to retire as AMCC Chair after six successful years. Under Mr. Doherty's leadership, the AMCC enhanced its coordination with IOSCO's policy committees, improved the substance and increased the amount of contributions to IOSCO work streams, achieved observer status at IOSCO Board meetings and delivered training to hundreds of IOSCO members from around the globe.

As the new AMCC Chair, I am honored by the support of the AMCC members to fulfill this important role and energized by their commitment to contribute to IOSCO's important mission. I recognize that I have *big shoes* to fill in order to build upon the previous accomplishments of Mr. Doherty and his dedicated staff. The new AMCC Vice-Chair Nandini Sukumar, CEO of World Federation of Exchanges, will also contribute her expertise and experience to leverage the AMCC's resources and align them with IOSCO's priorities.

## Vision and Purpose

To appreciate the AMCC's important consultative role within IOSCO's framework, it's important to highlight the breadth, depth and diversity of the committee. The AMCC is comprised of over 60 IOSCO affiliate members representing self-regulatory organizations (SROs), exchanges, market infrastructures, investor protection and compensation funds, associations of regulated entities as well as other bodies with interest in securities and derivatives regulation. The AMCC membership offers a valuable source of front-line regulatory expertise and market insights.

It is important to emphasize that AMCC members' objectives are completely aligned with IOSCO's objectives to enhance investor protection, maintain fair, efficient and transparent markets and address systemic risk. As IOSCO develops, implements and promotes adherence to internationally recognized standards, the AMCC's contributions are a critical component of this process. IOSCO's Board recognizes the value of the AMCC's contributions. As the Chairman of IOSCO's Board stated in last year's annual report, IOSCO continues to place importance on inclusiveness by drawing on the expertise of its Growth and Emerging Markets Committee and the AMCC. With the recognition of AMCC's valuable contributions comes responsibilities to deliver timely, forward-looking and relevant contributions that further advance IOSCO's work.

While there were a number of significant AMCC contributions during the past year, this report will highlight AMCC's input into several projects furthering IOSCO's priorities, including cybersecurity, emerging risks, efficient resiliency, investor protection and capacity building.

## Significant Contributions

**Cybersecurity:** As cyber attacks continue to pose a major risk to financial stability and investor protection, cybersecurity continues to be a top priority for AMCC members. IOSCO's Cyber Task Force (CTF) reached out to the AMCC and requested information regarding the state of cybersecurity practices for market infrastructure entities, including exchanges, intermediaries and asset management/collective investment schemes. AMCC members submitted input that included key findings from an annual AMCC cybersecurity survey for investment managers to benchmark the cybersecurity



posture of the asset management industry globally, a summary of requirements, monitoring procedures and educational efforts by the AMCC's SROs that oversee intermediaries, and standards and best-practices established for exchanges and market infrastructure providers.

**Emerging Risks:** AMCC members furthered the work of the Committee on Emerging Risks' development of IOSCO's 2019 Annual Risk Outlook by providing input on emerging regulatory issues, risks, trends, and issue notes on topics including Brexit and benchmarks. AMCC members are already considering contributions to the 2020 Risk Outlook.

**Efficient Resiliency:** An IOSCO priority is to investigate potential inefficiencies in the OTC derivatives market structure and trade reporting schemes. There are several AMCC members that were required to implement these reforms and/or have been significantly impacted by these reforms. Therefore, AMCC members will continue to provide constructive feedback through document submissions and participate on roundtables organized by IOSCO's Committee on Derivatives (Committee 7).

**Investor Protection:** Investor protection is part of the mission of many AMCC members. Therefore, various AMCC members participated in the second annual IOSCO World Investor Week to promote investor education and protection. Events ranged from webinars, social media campaigns, contests, pro-bono clinics and roadshows. Topics addressed fraud protection, consumer awareness, financial planning processes, saving and investing and many others.

**Capacity Building:** In order to contribute to well-regulated markets, the AMCC provides an annual

regulatory training program to share AMCC members' expertise with all IOSCO members. In 2018, the two-day Regulatory Staff Training was hosted by the International Swaps and Derivatives Association (ISDA) in London. Approximately 100 individuals from jurisdictions worldwide attended the program. The seminar featured panels about OTC derivatives, G20 commitments, enforcement, data analytics, cybersecurity, surveillance, ethics and retail protection measures. Each topic addressed elements and best practices of an effective regulatory program, offered case studies and practical applications of the material, and provided insight into the latest industry developments.

Planning for the 2019 AMCC Regulatory Staff Training Seminar is underway. This year's event will take place in Madrid at IOSCO's headquarters during the first week of December.

## Looking Ahead

The AMCC is very proud of its many contributions during the past year, but we all know that a successful past does not ensure a successful future. The need for effective and efficient regulation has never been greater, and the AMCC promises to continue to do everything it can to ensure that the highest levels of integrity are demanded of all market participants.

## Thank You

In closing, I want to express my gratitude to all AMCC members for making IOSCO a priority and committing valuable resources and time to provide meaningful input to IOSCO's work. I'd also like to thank the IOSCO Secretary General and the General Secretariat staff for their expertise, support and coordination.





## Report from the IOSCO Secretary General

**Mr. Paul Andrews**  
> IOSCO Secretary General

The IOSCO Board agreed in October 2016 to concentrate its policy initiatives on five focus areas as the first step in a new priority-setting process. The objective of this exercise was to align the work of IOSCO policy committees with Board-approved priorities, thereby enhancing the effectiveness of the organization and its impact on the regulation of securities markets.

I am happy to report that in 2018 the priority-setting process proved its worth: IOSCO advanced its efforts to address emerging risks, market vulnerabilities and other market developments that could undermine investor protection, market integrity and efforts to mitigate systemic risk -- the organization's three core objectives.

By clearly articulating IOSCO's policy goals, the new priority-setting process facilitates greater collaboration among the organization's various committees. It also laid the groundwork for IOSCO to publish its first public work program in 2019, thereby bringing greater transparency to our work to the benefit of both members and stakeholders. As part of this new process, in October 2018, the IOSCO Board agreed on five policy priorities, based on the risks and trends identified in the IOSCO Risk Outlook, which draws on input from IOSCO members and policy committees. These priorities are crypto assets, market fragmentation, artificial intelligence and machine learning, passive investing and index providers and retail distribution and digitalization.

Each of these priorities corresponds to one or more of the following five broad focus areas approved by the Board in 2016 to guide IOSCO's work:

1. Strengthening the structural resilience of capital markets;
2. Addressing data gaps and information sharing issues;
3. Applying new insights into investor protection and investor education;

4. Analyzing the role of securities markets in capital-raising and sustainability issues, and the related role of securities regulation;
5. Examining the role of regulation in financial technology and automation.

A positive consequence of the Board's priority setting was the substantial increase during 2018 in cross-sector work among its eight policy committees on matters such as the offer and sale of retail OTC leveraged products, initial coin offerings and cryptocurrencies, cyber resilience and outsourcing and third-party suppliers. The cross-committee collaboration provides IOSCO and its members with a broad perspective of the risks and challenges that regulators, investors and other stakeholders face in today's increasingly complex market environment. No longer can we address issues in silos, given the interconnectedness of virtually all aspects of modern markets.

A second positive consequence of the Board's approach is the increasing contribution to IOSCO work of the Affiliate Members Consultative Committee (AMCC) and the Growth and Emerging Markets Committee (GEMC). For example, throughout the year, the AMCC contributed crucial data to

various workstreams and brought an industry perspective to IOSCO policy work. The GEMC also offered valuable input in areas such as sustainable finance, emerging risks and cyber resilience.

Similarly, IOSCO relies on its four regional committees to broaden the scope and reach of its work. Regional committees have been particularly adept at addressing cross-border issues that arise from the growing integration of global markets. IOSCO's Asia-Pacific Regional Committee (APRC), for example, has led the way by engaging in recent years with authorities in the European Union and the United States on the cross-border implications of regulatory reforms in these jurisdictions for the Asia Pacific region.

IOSCO's effectiveness as a standard setter lies ultimately in the ability of its members to implement the *Objectives and Principles of Securities Regulation* (IOSCO Principles) and other IOSCO standards. IOSCO's Assessment Committee assesses and encourages full, effective and consistent implementation of principles and standards across the IOSCO membership, thereby supporting IOSCO's efforts to fulfill its three core objectives and helping reduce regulatory arbitrage and the cost of conducting cross-border business. During

2018, for example, the Assessment Committee undertook key reviews of the 2013 Suitability Requirements with respect to the Distribution of Complex Financial Products and of the IOSCO Secondary and Other Market Principles. The review of the suitability requirements is aimed at enhancing investor protection and will be completed in 2019; the review of secondary and other market principles indicated that implementation was generally high across the 40 member jurisdictions reviewed. These principles form part of IOSCO's 38 Objectives and Principles of Securities Regulation, which provide the core elements of a robust regulatory framework.

IOSCO last year also undertook important work in collaboration with the Financial Stability Board (FSB) and other standard setters on the impact of post-crisis reforms on incentives to centrally clear standardized OTC derivatives. Our analysis indicated that, in general, the reforms do in fact promote central clearing – a mainstay of the G20 commitment to reform the OTC derivatives markets. However, we also noted that in some instances, there may be less incentives to use central clearing and, in some cases, regulatory reform may not incentivize central clearing. These findings have informed additional policy work by IOSCO and the Committee on Payments and Market Infrastructures (CPMI).





## 2018 - Focus Areas and Priority Work:

While the full update on our work can be found in the chapter on *Policy Committees and Task Forces*, I wanted to briefly describe some of the key highlights of each IOSCO focus area in 2018, as they clearly underscore IOSCO's commitment to achieve its core objectives and keep pace with emerging trends in global securities markets.

### 1. Strengthening the structural resilience of capital markets

In 2018, IOSCO examined issues related to asset management, cyber resilience and the regulation and supervision of derivatives markets, as part of its ongoing work to address market vulnerabilities and safeguard investors and securities markets against future crises. We published a set of recommendations to improve regulatory reporting and transparency in secondary corporate bond markets and another set to help trading venues manage extreme volatility. Both projects aimed to address factors that can undermine the integrity of securities markets and harm investor confidence. Similarly, we issued recommendations to entities responsible for collective investment schemes to ensure their liquidity management practices protect investor interests, particularly in stressed market conditions.

The Monitoring Group (MG), which IOSCO chairs, is comprised of six other international organizations that collaborate to promote high-quality international auditing and assurance standards. In 2017-2018, the MG conducted a public consultation on a proposed reform of the international audit standard-setting process that sets out various options to enhance the governance, accountability, oversight and independence of the international audit standard-setting process. The consultation paper drew responses from over 180 stakeholders.

### 2. Addressing data gaps and information sharing issues

The European Union General Data Protection Regulation that took effect in May 2018 presented significant challenges for IOSCO, which depends on information sharing and cross-border cooperation among its members to combat cross-border fraud and misconduct. IOSCO engaged with European Union authorities to ensure that information sharing under the new EU data privacy rules between European Economic Area (EEA) and non-EEA authorities would remain effective.

Specifically, IOSCO's Board-level Subgroup on Data Protection negotiated an Administrative Arrangement with the European Protection Data Board that now enables

IOSCO members to continue sharing information under the IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information.

### 3. Applying new insights into investor protection and investor education

Protecting investors is a core objective for IOSCO. In May 2018, we issued a report in conjunction with the Organisation for Economic Co operation and Development (OECD) that examines how authorities can break down behavioral biases to rational decision making on the part of investors and nudge consumers to improve their financial planning. IOSCO also published a report that examines the growing vulnerability of aging investors to financial fraud and other risks and identifies sound practices to protect them from financial abuse.

### 4. Analyzing the role of securities markets in capital-raising and sustainability issues, and the related role of securities regulation

In October 2018, the Board launched an information sharing network to gain insight into the issues around sustainability, including issuer disclosure. The GEMC explored the trends and challenges that shape the development of sustainable finance in emerging capital markets. The work culminated in 2019 in a set of recommendations to facilitate the development of sustainable finance as a driver of economic growth in emerging market jurisdictions.

### 5. Examining the role of regulation in financial technology and automation

During the year, the Board launched a Fintech Network to enable the exchange of information, knowledge and experiences related to fintech issues among IOSCO members. The network agreed to focus on distributed ledger technology; the ethics of artificial intelligence and machine learning; regtech and suptech; and the lessons learned from innovation. It aims to produce a series of timely issues papers to inform members of key developments in this fast-moving area and the implications for regulation and supervision.

Going forward, the IOSCO Board will continue to work closely with its members, the General Secretariat and its various committees to establish work priorities that are both timely and effective. Doing so reaffirms IOSCO's commitment to keep pace with the latest capital market developments so as to protect investors, ensure market integrity and mitigate systemic risk.







# 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*.







# Inter-Agency Work

## **IOSCO work with the Bank for International Settlements**

### **BCBS-IOSCO Working Group on Margining Requirements**

In 2011, the G20 Leaders called upon the Basel Committee on Banking Supervision (BCBS) and IOSCO to develop consistent global standards for margin requirements for non-centrally cleared derivatives, as part of the global financial reform agenda. In response, the BCBS and IOSCO released in September 2013 the final framework for margin requirements for non-centrally cleared derivatives. Under the globally agreed standards, financial firms and systemically important non-financial entities that engage in non-centrally cleared derivatives would be required to exchange initial and variation margin commensurate with the counterparty risks arising from such transactions. The framework was designed to reduce systemic risks related to OTC derivatives markets and to provide firms with appropriate incentives for central clearing and managing the overall liquidity impact of the requirements.

In February 2014, the BCBS and IOSCO approved the creation of a monitoring group to evaluate the margin requirements and determine whether elements of the margin standards should be reconsidered. Recognizing the complexity and impediments in implementing the framework, the BCBS and IOSCO agreed in March 2015 to:

- > delay the implementation of requirements to exchange both initial margin and variation margin by nine months; and
- > adopt a phase-in arrangement for the requirement to exchange variation margin.

The BCBS and IOSCO also asked the Working Group on Margin Requirements (WGMR) to continue monitoring progress in implementation to ensure its consistency across products, jurisdictions and market participants. At the end of 2015 and again in early 2017, the WGMR submitted a progress report on implementation based on its monitoring work during 2015 and 2016. The WGMR continued monitoring the global standards in

2018 and in July 2019 it published a revised version of the requirements, after the BCBS and IOSCO agreed to extend by one year the final implementation phase of the margin requirements. With this extension, the final implementation phase will take place on 1 September 2021.

### **The Committee on Payments and Market Infrastructures (CPMI)**

The Committee on Payments and Market Infrastructures (CPMI) promotes the safety and efficiency of payment, clearing, settlement and related arrangements, thereby supporting financial stability and the wider economy. The CPMI monitors and analyzes developments in these arrangements, both within and across jurisdictions. It also serves as a forum for central bank cooperation in related oversight, policy and operational matters, including the provision of central bank services.

CPMI and IOSCO work together to enhance the coordination of standard and policy development and implementation related to clearing, settlement and reporting arrangements, including financial market infrastructures (FMIs) worldwide. FMIs, which include central counterparties (CCPs), trade repositories (TRs), central securities depositories (CSDs), securities settlement systems (SSSs) and systemically important payment systems (PSs), play an essential role in the global financial system. The disorderly failure of an FMI could lead to severe systemic disruption if it caused markets to cease to operate effectively.

### **Policy work on CCP risk**

In 2018, CPMI-IOSCO adopted a framework for supervisory stress testing (SST) of CCPs to assess the collective response of a set of CCPs to the same stress event. Moreover, the FSB consulted with CPMI-IOSCO on a discussion paper that sets out considerations that may help authorities evaluate whether existing financial resources and tools are adequate to implement resolution strategies for individual CCPs; and considerations that could guide authorities in developing possible approaches to the treatment of CCP equity in resolution.

## Other CPMI-IOSCO Work

### *Data harmonisation*

In 2014, CPMI-IOSCO created the Harmonisation Working Group of Key OTCD Data Elements (HG) to develop detailed guidance on harmonization of data elements that are reported to trade repositories, including the Unique Product Identifier (UPI), the Unique Transaction Identifier (UTI) and other Critical Data Elements (CDE).

Harmonisation of key OTCD data elements will facilitate a more consistent presentation of those data elements across jurisdictions. In addition, it should help authorities aggregate OTCD data received from trade repositories.

CPMI-IOSCO published the final technical guidance on:

- > the Harmonisation of the Unique Transaction Identifier (UTI) in February 2017;
- > the Harmonisation of the Unique Product Identifier (UPI) in September 2017; and
- > the Harmonisation of critical OTC derivatives data elements (other than UTI and UPI) (CDE) in April 2018.

During 2018, the CPMI-IOSCO HG also worked on the development of governance arrangements for CDE. In August 2018, it published a consultation report on *Governance arrangements for critical OTC derivatives data elements (other than UTI and UPI)*. The FSB is developing the governance arrangements for UTI and UPI.

### *CPMI-IOSCO Working Group on Digital Innovations (JWGDI)*

The JWGDI's aim is to identify and assess the implications of blockchain, distributed ledgers and related technologies for clearing and settlement arrangements. It has a key focus on the technical and infrastructure aspects (such as security, scalability and efficiency) of emerging business models, products and services based on these technologies. To fulfil its mandate, in 2018, the JWGDI monitored use cases related to Digital Ledger Technology (DLT) and clearing and settlement and some compliance issues related to the Principles for Financial Market Infrastructures (PFMI)

### *Implementation Monitoring*

During 2018, the CPMI-IOSCO Implementation Monitoring Standing Group (IMSG) continued the

process of monitoring implementation of the PFMI. Consistent with the G20's expectations, CPMI and IOSCO members have committed to adopting the 24 principles (the Principles) and the five responsibilities for authorities (the Responsibilities) included in the PFMI.

Full, timely and consistent implementation of the PFMI is fundamental to ensuring the safety and soundness of key FMIs and to supporting the resilience of the global financial system. In addition, the PFMI are an important part of the G20's mandate that all standardized OTC derivatives should be centrally cleared, and all OTC derivative contracts reported to trade repositories.

CPMI-IOSCO conducts its reviews in three stages:

*Level 1 assessments* are based on self-assessments by individual jurisdictions on how they have adopted measures that will enable them to implement the PFMI. Following the initial Level 1 assessment report, published in August 2013, IMSG conducted five updates from 2014 to 2018 (with the respective reports published in May 2014, June 2015, June 2016, July 2017 and July 2018).

The Fifth update (published in July 2018) shows that further progress was made among some participating jurisdictions that had not completed the adoption of their implementation measures at the time of the 2017 update. Twenty-one out of 28 jurisdictions completed the adoption of measures for all FMI types, compared to 20 jurisdictions in the previous update. Despite this progress, some jurisdictions continued to lag in adopting measures for trade repositories and central counterparties.

Following the publication of the Fifth update, the IMSG discontinued the publication of Level 1 reports and moved to a Level 1 online tracker now available on the IOSCO and the CPMI websites.

In parallel with the Level 1 assessments, CPMI-IOSCO conducts Level 2 assessments. These are peer reviews that seek to determine the extent to which the content of the jurisdiction's implementation measures, as reported at Level 1, is complete and consistent with the PFMI.

In August 2017, the IMSG launched Level 2 assessments covering all FMI types in Canada and Switzerland. The CPMI-IOSCO published the report for Canada in August 2018 and the report for Switzerland in January 2019.









In July 2018, the IMSG started the Level 2 assessment of Brazil, covering all FMI types. In June 2018, the IMSG launched the Level 2 assessment for the US focusing on systemically important payment systems, central securities depositories and securities settlement systems in the US. The IMSG will assess other jurisdictions at Level 2 over time.

*Level 3 (Principles) assessments* are peer reviews to examine the consistency in the outcomes arising from the implementation of the Principles and are thematic in nature. The output from the Level 3 assessments are narrative-based reports, drawing out key issues related to the consistency of FMIs' outcomes with the Principles and noting any variations in outcomes across FMIs in various jurisdictions.

The IMSG conducted the first Level 3 assessment on the financial risk management and recovery practices of 10 derivatives CCPs started in July 2015 and published the report, *Implementation monitoring of PFMI: Level 3 assessment – Report on the financial risk management and recovery practices of 10 derivatives CCPs*, on 16 August 2016.

The review identified several gaps and shortcomings, notably in the areas of recovery planning and credit and liquidity risk management.

In 2017, the CPMI-IOSCO launched a follow up targeted review of CCP's progress in addressing the concerns identified in the initial Level 3 report. The work focused on recovery planning, coverage of financial resources and liquidity stress testing at 19 CCPs. The CPMI-IOSCO published the report of this assessment in May 2018.

Overall, while the report found that participating CCPs have made progress in implementing arrangements consistent with the key international standards on financial risk management and recovery practices (PFMI), some CCPs are still failing to implement various measures in the areas of risk management and recovery planning. IOSCO and the CPMI have encouraged the relevant CCPs to address these deficiencies as a matter of priority.

#### ***CPMI - IOSCO Working Group on Cyber Resilience (WGCR)***

The CPMI - IOSCO Working Group on Cyber Resilience (WGCR) was established in 2014 and explores ways to help both authorities (regulators, overseers) and FMIs to enhance cyber resilience. The WGCR





encourages information sharing among FMI regulators and promotes swift adoption of the *WGCR Guidance on cyber resilience for financial market infrastructures* (Cyber Guidance), published in June 2016.

The Cyber Guidance aims to add momentum and international consistency to the industry's ongoing efforts to enhance FMIs' ability to pre-empt cyber attacks, respond rapidly and effectively to them and achieve faster and safer target recovery objectives. This guidance represents the first set of internationally agreed principles in financial markets to support oversight and supervision in the area of cyber resilience.

In June 2018, the WGCR held a joint workshop with the IMSG on operational and cyber risks, attended by chief risk, security and technology officers of FMIs, exchanges, banks, consultants with related expertise and representatives from member authorities. The workshop explored the challenges in implementing Principle 17 of the PFMI on operational risk management, including the Cyber Guidance.

In September 2018, the Working Group held a roundtable discussion with relevant CEOs in Paris on enhancing cyber resilience to share their views and discuss potential actions related to strengthening the cyber-resilience of payment, clearing and settlement arrangements globally.

The WGCR is interacting with the IMSG in 2019 on the assessment of business continuity and will do the same with other cyber-related matters in 2020 and 2021.

## Joint work by BCBS, CPMI, FSB and IOSCO

### Study Group on Central Clearing Interdependencies (SGCCI)

BCBS, CPMI, FSB and IOSCO established a joint study group in July 2015 to identify, quantify and analyze interdependencies among CCPs, their clearing members and other financial services providers. The primary focus of the group is on interdependencies that may have implications for global financial stability.



Interdependencies could include, for instance:

- > financial obligations of clearing members, such as default fund contributions, initial and variation margins, assessment rights, among others;
- > financial interdependencies with other financial institutions, which can be clearing members, stakeholders, such as investment counterparties, liquidity providers and deposit banks; and
- > operational interdependencies, such as links with investment counterparties, custodians and settlement agents.

The SGCCI carried out a data collection exercise in 2016 and published a report in July 2017.

The SGCCI concluded an additional and more streamlined data collection in 2017 to quantify changes in central clearing interdependencies.

In August 2018, the SGCCI published the report *Analysis of Central Clearing Interdependencies* which analyzes the network of relationships among 26 CCPs. This work may prove useful for designing supervisory stress tests.

### **Derivatives Assessment Team (DAT) – incentives to centrally clear OTC derivatives**

In 2017, the FSB, IOSCO, the BCBS and the CPMI reconvened the Derivatives Assessment Team (DAT), to “re-examine whether adequate incentives to clear centrally over-the-counter (OTC) derivatives are in place.” The DAT began this work in July 2017 and finalized its report *Incentives to centrally clear over-the-counter (OTC) derivatives: A post-implementation evaluation of the effects of the G20 financial regulatory reforms*, by the Argentine G20 Leaders’ Summit in November 2018.

The DAT study sought to deliver a comprehensive assessment of whether the reforms are incentivizing central clearing consistently with the G20 reform objectives across different asset classes/product types and for various classes of counterparty.

The 2018 report suggested that, overall, the reforms are promoting central clearing, especially for the most systemic market participants, such as dealers and larger and more active clients. This development is consistent with the G20 goal of reducing complexity and improving transparency and standardization in the OTC derivatives markets. In contrast, the incentives for central clearing seem to be weaker for small or less active clients. The DAT’s work also suggested that the treatment of initial margin in the leverage ratio can be a disincentive for banks to offer or expand client clearing services.

These findings should help inform further consideration by the FSB and the relevant standard-setting bodies of possible policy responses or further studies.

To support its work, the DAT conducted surveys of different participants in central clearing on the effects of G20 reforms on derivatives markets and other market structure issues.

### **Financial Stability Board, Cyber Incident Response and Recovery**

IOSCO is a member of the working group on Cyber Incident Response and Recovery (CIRR), established by the FSB in October 2018. The CIRR’s mandate is to develop a toolkit of effective practices to assist financial institutions-- supervisors and other relevant authorities-- before, during and after a cyber incident.





## Report from the Chair of the Africa/Middle-East Regional Committee (AMERC)

**Mr. Paul Murithi Muthaura**

- > Chair of the Africa/Middle-East Regional Committee
- > Chief Executive, Capital Markets Authority, Kenya

**During 2018, IOSCO’s Africa/Middle-East Regional Committee (AMERC) made important contributions to IOSCO’s work, particularly regarding sustainable finance, long-term market based finance and fintech, among other IOSCO Board priorities. The committee also provided a regional perspective to a spectrum of workstreams, thereby enriching IOSCO’s guidance and standard setting work.**

The committee played an important role in helping its members identify and address emerging risks in the region while also contributing to IOSCO’s Risk Outlook, spearheaded by the Committee on Emerging Risks and the IOSCO Secretariat.

As part of its effort to facilitate economic growth in the Africa/Middle East region, AMERC focused its annual conference in Rabat in January 2018 on the theme *Market Based Finance in Africa and the Middle-East: Challenges & Opportunities*. This event provided an important platform for members to share experiences on addressing the challenges of how to finance infrastructure projects and highlight the benefits of financing the green economy.

The conference also included a session that focused on the challenges of assisting small and mid-sized enterprises (SMEs) in the region to shift their source of financing from banks to market-based alternatives.

During the year, the committee made important progress in assessing the role of regulators and policy makers in attracting new company listings to the region’s stock exchanges. This work responded to a substantial drop in the number of new listings during the previous five years. For this project, AMERC’s Working Group on Listings sought to identify and compare approaches to address the impediments to new stock market listings.

The work culminated in a series of proposals aimed at helping members build the region’s stock exchanges into a source of market-based financing, particularly for SMEs. To convert these proposals into a replicable set of recommendations, AMERC began discussions with Financial Sector Deepening Africa (FSDA) to support a potential consultancy project in this area.

AMERC also held an in-depth session during its private meeting in Rabat on *Fintech, Regulatory Sandboxes, Reglabs: Buzzwords or Real Implications for AMERC?* The meeting was led by Nezha Hayat, then AMERC Vice Chair and President and CEO of the Moroccan Capital Market Authority (MCMA), the meeting host.

I was honored to participate in a panel discussion with IOSCO Secretary General Paul Andrews and Waleed al Awadhi of the DFSA Dubai that examined the opportunities, challenges and implications of developing new financial technologies. The meeting also allowed AMERC members to deliberate on the key regulatory challenges and risks stemming from cybersecurity, market concentration and money laundering and their impact on investor protection. These risks notwithstanding, members concluded that financial technology is a game changer transforming the structure of the global financial system, supporting borderless economies, increasing financial inclusion, disrupting markets and market participants and

facilitating the emergence of new companies and market funding solutions.

I presided over my first meeting as AMERC Chair in Budapest in May 2018, accompanied by the new committee Vice Chair, Mishaal Al-USaimi of the Capital Markets Authority Kuwait. I commend our predecessors, Ms. Mary Uduk of the SEC Nigeria and Ms. Hayat of the AMMC Morocco, for the time and effort they dedicated to AMERC during their tenure as Chair and Vice-Chair of AMERC, respectively.

The IOSCO Annual Meeting in Budapest presented an opportunity for AMERC members to familiarize themselves with the key topics discussed by the Board, including data privacy, initial coin offerings, exchange-traded funds, sustainable finance and innovation and fintech.

In Budapest, members also discussed increasing the number of signatories to the Marrakech Pledge, which seeks to promote green finance in Africa, while contributing to the Growth and Emerging Market (GEM) Committee's work on sustainable finance. Members agreed that *green initiatives* are vital to promoting sustainable capital markets and that AMERC should seek to help meet global demand for sustainable assets.

Following the GEM Committee Annual Meeting in Cayman Islands, I was pleased to note the alignment of our region with the outlook of the wider GEM Committee membership in areas such as fintech -- its risks and opportunities-- the impact of technological innovations on the regulatory environment, sustainable finance and Africa's potential to provide leadership in this space through the Marrakech Pledge.







## Report from the Chair of the Asia-Pacific Regional Committee (APRC)

### Mr. Jun Mizuguchi

- > Chair of the Asia-Pacific Regional Committee
- > Deputy Commissioner for International Affairs, Financial Services Agency, Japan

The Asia-Pacific Regional Committee is a forum for promoting cooperation among securities markets regulators in the Asia-Pacific region. The committee also serves as a platform for APRC regulators to engage with their counterparts in other areas of the world to enhance cross-border cooperation and trading in securities and derivatives markets.

APRC members met twice in 2018 and provided IOSCO with views from an Asian Pacific perspective on a range of global issues, including harmful but legal conduct, crypto-assets and initial coin offerings (ICOs) and sustainable finance.







Most of these global issues are priorities for the IOSCO Board, which enables the APRC to align its work with IOSCO's key policy initiatives.

In May 2018, at their meeting during IOSCO's Annual Conference in Budapest, APRC members discussed emerging risks in the Asia-Pacific region and their potential effect on financial stability. The IOSCO Secretariat updated the APRC on the prioritization of IOSCO workstreams and other financial developments regarding ICOs, IOSCO Standards Implementation Monitoring and data privacy issues arising from the European Union General Data Protection Regulation (GDPR) and which had the potential to affect IOSCO enforcement work.

In October, members gathered in Kuala Lumpur and extensively discussed the issues around harmful but legal conduct, crypto assets/ICOs and the development of European Union reforms and regulations. The Secretariat also updated the APRC on the relevant topics discussed at the October Board meeting.

The APRC's supervisory and enforcement meetings preceded the plenary meeting. In the supervisory meeting, participants discussed the issues around supervision, including the application of suitability requirements for the online distribution and advisory platforms, conduct risk, a risk-based approach for anti-money laundering and counter-terrorism financing and the liquidity risk management of open-ended funds. At the enforcement meeting, members analyzed the common enforcement challenges for the region posed by insider trading and market manipulation, cybercrime, anti-money laundering and counter-terrorism financing, among other things.

This year, the plenary meeting was followed by the third annual EU-Asia Pacific Forum on Financial Regulation, a platform for cooperation and information exchange on cross-border issues among banking and securities market regulators from the two regions. As in the past two years, the participants exchanged views regarding Brexit, the EU Markets in Financial Instruments Directive II (MiFID II), EU Benchmark Regulation (BMR) and the European Market Infrastructure Regulation (EMIR), as well as the EU GDPR, which went into effect in May 2018.

These meetings enable regional authorities to discuss relevant issues for the Asia-Pacific region in more detail and therefore gain a deeper understanding of the regulatory frameworks of each of the region's individual jurisdictions.

They also allow members to discuss APRC contributions to policy development within IOSCO. For example, in December 2018, the IOSCO Board approved mandates on market fragmentation and crypto assets, which are standing agenda items at APRC meetings.

The first mandate called for IOSCO to explore the cross-border impact of international regulation on securities markets -- a high priority issue for the Japanese G20 presidency and IOSCO, which published an important report on fragmentation in 2019. The second mandate entails examining the issues around the regulation of crypto asset trading platforms.

Finally, I would like to thank Bing Shen, the Vice Chair, and the IOSCO Secretariat who have always been extremely supportive. I am looking forward to working together with all the members to strengthen cooperation across the region.



## Report by the Chairman of the European Regional Committee (ERC)

### Mr. Jean-Paul Servais

- > Chair of the European Regional Committee
- > Chairman of Belgium's Financial Services and Markets Authority (FSMA)

The European Regional Committee (ERC) serves as a forum for IOSCO's European members to share their views on financial developments and regulatory matters in the region. As the largest regional committee, with 11 members and an observer on the Board, the ERC is an important contributor to IOSCO discussions on Board policy priorities.







During its three meetings in 2018 in Madrid, Budapest and Luxembourg, the ERC analyzed key developments in European and global securities markets and their possible impact on investor protection, financial market integrity and systemic risk. Members examined important issues arising from initial coin offerings (ICOs) and crypto assets and shared their regulatory experiences regarding these and other fintech developments. Members also considered how technology could assist regulators to make decisions more effectively and improve regulatory compliance and outcomes.

Throughout the year, the ERC reviewed the latest developments related to asset management -- particularly IOSCO's work on leverage and liquidity -- the reform of the international audit standard-setting process and the issues around sustainable finance. In 2018, European regulators led much of the work in these areas and made valuable contributions to other IOSCO Board projects. The ERC also followed up on the measures IOSCO proposed for its members to consider when addressing the risks arising from the offer and sale of OTC leveraged products to retail investors.

ERC members led three important IOSCO initiatives: the Fintech Network, the Sustainability Network and the ICO Support Framework. The European leaders of each of these three projects gave regular updates to the ERC on recent developments in each of these areas.

As in past years, the ERC maintained a fluid dialogue on European market issues with the European Securities and Markets Authority (ESMA), an IOSCO associate member and Board observer with a non-voting seat on the ERC. ESMA provided regular updates on important regulatory matters, including the latest EU benchmark reform work, the Markets in Financial

Instruments Directive (MiFID II) and the European Market Infrastructure Regulation (EMIR). Each of these initiatives has a significant impact far beyond European borders.

Members also discussed the European Union General Data Protection Regulation or GDPR --which went into effect in May 2018. Among other things, members exchanged views on how best to ensure that cross-border exchanges of information between European Economic Area (EEA) and non-EEA securities regulators would continue in a manner consistent with the new GDPR, the IOSCO MMoU and the overall public interest.

Members deliberated on the possible role of IOSCO in addressing market fragmentation, a priority for the G20, the Financial Stability Board and the IOSCO Board.

In 2018, all but three of the 50 ERC members were signatories to the MMoU. The three non-signatories were listed in Appendix B, the list of IOSCO members that lack the legal authority to comply fully with the MMoU provisions but are committed to becoming signatories. The ERC encourages its members to apply to become signatories to the Enhanced MMoU, which provides for additional enforcement powers that IOSCO believes are useful for enhancing the effectiveness of information sharing.

Finally, I would like to thank my colleagues at the ERC for my re-election as ERC Chair. I am also pleased that Erik Thedéen of Sweden was re-elected Vice Chair. I look forward to working closely with him and other ERC members to analyze both the challenges and the opportunities that lie ahead in European markets. I am also grateful to the IOSCO Secretary General and the IOSCO staff for their support to the committee.



## Report by the Chairman of the Inter-American Regional Committee (IARC)

### Mr. Marcos Ayerra

- > Chair of the Inter-American Regional Committee
- > Chairman, Comisión Nacional de Valores, Argentina

**The Inter-American Regional Committee (IARC) met twice in 2018 to discuss issues relevant to securities regulators and supervisors in the region. The committee meetings provided a platform for members to exchange ideas on IOSCO policy initiatives and to share their experiences addressing the regulatory challenges arising from things such as financial technologies, cyber issues and market volatility. During the year, the committee also discussed sustainable finance, crypto assets and the integration of financial markets in Latin America.**

The fact that IARC members hail from both developed and emerging jurisdictions enriches these discussions, as it broadens members' perspective of key issues and trends altering and shaping global capital markets. For example, at the IARC meeting in Budapest in May, OSC Ontario described the rapid growth in online investing in its jurisdiction, the advent of funds investing in initial coin offerings and the regulatory concerns that these developments raise. Various members also provided regulatory updates on fintech initiatives in their jurisdictions aimed at encouraging innovation while protecting investors, increasing financial inclusion and deterring money laundering and other wrongdoing. The SIMV Dominican Republic and the SMV Peru described their new legal regimes for investment funds and funding platforms, respectively; the FMC Chile explained recent changes to the governance of its financial market supervision aimed at improving and strengthening the independence and legal powers of the country's financial supervisors.

At the meeting, Deputy Secretary General Tajinder Singh updated members on Board priorities such as sustainable finance, asset management, crypto assets and ICOs. The discussion that followed enabled the members of the Inter-American region to understand the Board's policy work in more depth.

Mr. Singh also described the latest developments concerning the EU Data Protection Regulation on the transfer of personal data between financial supervisory authorities from the European Economic Area and those from non-EEA jurisdictions. Importantly, members discussed how the new regulation, which went into effect shortly after the meeting, could potentially affect cooperation and the exchange of information under the IOSCO Multilateral Memorandum of Understanding (MMoU) for enforcement purposes. The IARC welcomed the agreement reached in early 2019 between IOSCO and the European Protection Data Board that enables the continued exchange of information, as several IARC members are among the most frequent users of the MMoU.

At the IARC/COSRA meeting in the Cayman Islands in September 2018, IOSCO Secretary General Paul Andrews briefed the committee on various items, including the latest developments of the GEM Committee's Data Sharing Platform, launched in March 2018.

He urged IARC members to share their views and provide feedback on the platform, which offers information on the different GEM Committee members' regulatory frameworks and market architecture and relevant statistical data.



As Chairman of the IARC, I presented the CNV Argentina's thought-provoking case study on the lessons learned during the recent transformation of the Argentine capital markets and the turmoil it created. The study inspired an instructive discussion among members who shared their own experiences addressing market volatility and other challenges arising from the transformation of capital markets.

Members also discussed the progress made on various regional initiatives to integrate local markets and promote cross-border capital flows in the region, including efforts by the Pacific Alliance of Latin American Countries to further integrate jurisdictions in the region. Other projects included the bilateral agreement for the launch of the *Brazil-Argentina Passport for Funds Project*, which is part of an initiative to facilitate the distribution of funds in both Latin America and international markets, and the effort by Panama and El Salvador to integrate their financial markets further.

By working together, all IARC jurisdictions can better confront the challenges that lie ahead in their rapidly evolving financial markets, while making a valuable contribution to IOSCO's projects and initiatives on a global scale.





# 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.

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<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 Functions and Activities of the People Who Handle Other Peoples’ Money (Investment Advisors and Holders of Money)
- Investment Advisors Who Have Entered into Advisory







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.)



# IOSCO Risk and Research

The Research Function was established in 2010 to assist IOSCO in its efforts to identify, monitor and manage systemic risks. The IOSCO Strategic Direction 2015-2020 expanded the scope of this mission to go beyond financial stability to include IOSCO's two other core objectives: investor protection and fair, efficient and transparent markets.

In November 2017, IOSCO divided the Research Department into two new departments: *Emerging Regulatory Issues Department (ERI)* and *Market Intelligence and Data Analysis (MIDAT)*.

## The identification of global risks in capital markets

ERI supports the IOSCO Board in its identification, assessment and prioritization of vulnerabilities, trends

and risks in the capital markets. ERI coordinates the Secretariat's input to the work of the IOSCO Committee on Emerging Risks (CER) and leads IOSCO's contribution to the FSB's key risk identification and risk assessment mechanisms. It provides input to IOSCO's contribution to the FSB's Analytical Group on Vulnerabilities and associated sub-committees (AGV FIN) and supports IOSCO's participation in the Standing Committee on Supervisory and Regulatory Cooperation and the Standing Committee on Assessment of Vulnerabilities.





ERI's core function is to work closely with the CER to provide thought leadership to help shape Board priorities through the development of the Risk Outlook. ERI works hand in hand with the CER and actively assists the committee as it develops the Risk Outlook. It seeks to ensure that the vulnerabilities, trends and key risks identified in the document are converted into tangible ideas for the IOSCO Board to consider when setting its forward-looking policy agenda.

In 2018, IOSCO redesigned the Risk Outlook to be more practical and outcomes focused and to strengthen the interaction between the research function, the Board and its committees. For the first time, IOSCO supplemented the top-down approach with a bottom-up view of key sectoral risks by drawing extensively on the expertise of the policy committees, the Growth and Emerging Markets Committee and the Affiliate Members Consultative Committee. The CER delivered the new document to the Board in October 2018 and the priorities it identified laid the foundation for the 2019 Work Program.

The Risk Outlook fulfilled IOSCO's primary objective of delivering a securities market centric document for Board discussions on priority-setting for IOSCO's policy and standard-setting work. The Workplan serves to support the external communication of IOSCO's strategy.

### **Data collection and governance**

MIDAT provides IOSCO committees and the Secretariat staff, including the Chair and the Secretary General, with market intelligence, data and data analysis, often in response to requests. In 2018, MIDAT provided key data and analytical input to the Risk Outlook.

### **Outreach, debate, education and training and capacity building**

In 2018, MIDAT took part in many education and training initiatives on behalf of IOSCO, including the Global Certificate Program Seminar Training Program on Asset Management and Financial Stability Institute training.



# General Information

**The International Organization of Securities Commissions (IOSCO) is an international association of securities regulators that was established in 1983. Its General Secretariat is based in Madrid, Spain.**

The objectives of IOSCO's members are:

- > to cooperate in developing, implementing and promoting adherence to internationally recognized and consistent standards of regulation, oversight and enforcement to protect investors, maintain fair, efficient and transparent markets and to mitigate systemic risks;
- > to enhance investor protection and promote investor confidence in the integrity of securities markets, through strengthened information exchange and cooperation in enforcement against misconduct and in the supervision of markets and market intermediaries; and
- > to exchange information at both global and regional levels on their respective experiences to assist the development of markets, strengthen market infrastructure and implement appropriate regulation.

## Structure of IOSCO

**The Presidents Committee**, as the plenary body of IOSCO, meets once a year during the IOSCO Annual Conference and is attended by ordinary and associate members. Affiliate members attend the meeting, though voting rights are restricted to ordinary members.

The Board is the day to day governing body of IOSCO. Today, the IOSCO Board is composed of 34 members and two observers:

- > 18 Nominated Members from jurisdictions with the largest markets (based on a variety of factors);
- > The Chair and the two Vice Chairs of the Growth and Emerging Markets (GEM) Committee who are elected;
- > The Chairs and the Vice Chairs of the four Regional Committees who are elected;
- > One Member from the GEM Committee Membership who is elected; and
- > One Member from each of the four Regional Committees who is elected.

Ashley Alder, the Chief Executive Officer, Securities and Futures Commission, Hong Kong, has been the

Chair of the Board since IOSCO's Annual Meeting held in Lima, Peru in May 2016. During 2018, he was supported by two Vice Chairs; Jean-Paul Servais, Chairman, Financial Services and Markets Authority, Belgium (elected by the Board in May 2016) and Ranjit Ajit Singh, Chairman of the Securities Commission Malaysia (ex-officio as GEM Chair). Mr. Singh stepped down in late 2018, when he also retired as Chair of the SC Malaysia, and was succeeded by Dr. Obaid Al-Zaabi, Chief Executive Officer of the UAE Securities and Commodities Authority. The observers in 2018 were the Chair of the IOSCO Affiliate Members Consultative Committee, Karen Wuertz, Senior Vice-President, Strategic Planning and Communications, National Futures Association, United States, and the Chairman of the European Securities and Markets Authority of the European Union, Steven Maijoor.

**The Growth and Emerging Markets Committee (GEM Committee)** is the largest committee within IOSCO, representing almost 80% of the IOSCO's ordinary membership. As noted, Dr. Al-Zaabi of the United Arab Emirates chairs this committee. The two Vice-Chairs are Dr. Ünal Eryilmaz, Board Member, Capital Markets Board, Turkey, and Mr. Syed Zaid Albar, Chairman, Securities Commission Malaysia. The GEM Committee seeks to promote the development and greater efficiency of emerging securities and futures markets by providing training programs and technical assistance for members and facilitating the exchange of information and transfer of technology and expertise.

The GEM Committee's strategic priorities are focused on a variety of matters including risks and vulnerabilities assessments, policy and development work affecting emerging markets and regulatory capacity building.

The GEM Committee comprises 90 members and 22 non-voting associate members that include some of the world's fastest growing economies and 11 of the G-20 members.

IOSCO is the one of the few international standard setters that has a committee dedicated to emerging market issues. This inclusiveness increases IOSCO's effectiveness and positions it to play a more significant role in shaping the global regulatory framework.



IOSCO also has four regional committees, which meet to discuss matters specific to their respective regions and jurisdictions and contribute a regional perspective to Board discussions:

- > Africa/Middle-East Regional Committee;
- > Asia-Pacific Regional Committee;
- > European Regional Committee; and
- > Inter-American Regional Committee.

Self-regulatory organizations (SROs) and other affiliate members (see below for a full description) are members of the **Affiliate Member Consultative Committee (AMCC)**. IOSCO recognizes the importance of maintaining a close dialogue with its affiliate membership and encourages its input into IOSCO's policy development work.

## Annual Meeting

IOSCO's members meet every year at its Annual Meeting to discuss important issues related to global securities markets regulation. Event information can be found at [www.iosco.org](http://www.iosco.org).

## Membership Categories and Criteria

### Categories

IOSCO has the following three categories of membership:

- > Ordinary;
- > Associate; and
- > Affiliate.

### Ordinary

A national securities commission or a similar governmental body with significant authority over securities or derivatives markets is eligible for ordinary membership of IOSCO, provided it is a signatory to the IOSCO Multilateral Memorandum of Understanding (MMoU) on cooperation and exchange of information. Where there is no such national authority, provincial authorities with authority over securities or derivatives markets are eligible for ordinary membership, provided

they are MMoU signatories.

Each ordinary member of the organization is a member of the Presidents Committee and has one vote at meetings of that committee. The Presidents Committee meets yearly at the Annual Meeting.

### Associate

The following organizations are eligible for associate membership:

- > supranational governmental regulators;
- > subnational governmental regulators where there is a national governmental regulator;
- > intergovernmental international organizations and other international standard-setting bodies;
- > other governmental bodies with an appropriate interest in securities regulation;
- > national governmental regulators who are not MMoU signatories and who are not ordinary members; and
- > associations that consist of the public regulatory bodies.

Associate members may attend and vote at meetings of the Presidents Committee.

### Affiliate

The following bodies are eligible for affiliate membership of IOSCO:

- > self-regulatory organizations (SROs);
- > securities exchanges;
- > financial market infrastructures (including clearing and settlement agencies);
- > international bodies other than governmental organizations with an appropriate interest in securities regulation;
- > investor protection funds and compensation funds; and
- > any other body with an appropriate interest in securities regulation that the IOSCO Board may decide on for the purpose of furthering the objectives of the organization.

Affiliate members may attend the Presidents Committee meeting, but they have no voting rights.



#### Contact Details

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Website: [www.iosco.org](http://www.iosco.org)

# IOSCO Members

## Ordinary Members (129)

AGENCY	COUNTRY
Albanian Financial Supervisory Authority	ALBANIA
Alberta Securities Commission	ALBERTA, CANADA
Commission d'Organisation et de Surveillance des Opérations de Bourse	ALGERIA
Autoritat Financera Andorrana	ANDORRA, PRINCIPALITY OF
Comissão do Mercado de Capitais	ANGOLA
Comisión Nacional de Valores*	ARGENTINA
Central Bank of Armenia	ARMENIA
Australian Securities and Investments Commission*	AUSTRALIA
Financial Market Authority	AUSTRIA
Securities Commission of The Bahamas	BAHAMAS, THE
Central Bank of Bahrain	BAHRAIN, KINGDOM OF
Bangladesh Securities and Exchange Commission	BANGLADESH
Financial Services Commission	BARBADOS
Financial Services and Markets Authority*	BELGIUM
Bermuda Monetary Authority	BERMUDA
Autoridad de Supervisión del Sistema Financiero	BOLIVIA
Securities Commission of the Federation of Bosnia and Herzegovina	BOSNIA AND HERZEGOVINA, FEDERATION OF
Comissão de Valores Mobiliários*	BRAZIL
British Columbia Securities Commission	CANADA
British Virgin Islands Financial Services Commission	BRITISH VIRGIN ISLANDS
Autoriti Monetari Brunei Darussalam	BRUNEI
Financial Supervision Commission	BULGARIA
Auditoria Geral do Mercado de Valores Mobiliários, Banco Central of Cabo Verde	CABO VERDE
Cayman Islands Monetary Authority	CAYMAN ISLANDS
Commission de Surveillance du Marché Financier de l'Afrique Centrale	CENTRAL AFRICA
Comisión para el Mercado Financiero (Financial Market Commission)	CHILE
China Securities Regulatory Commission*	CHINA
Financial Supervisory Commission	CHINESE TAIPEI
Superintendencia Financiera de Colombia	COLOMBIA
Superintendencia General de Valores	COSTA RICA
Croatian Financial Services Supervisory Agency	CROATIA
Cyprus Securities and Exchange Commission	CYPRUS
Czech National Bank	CZECH REPUBLIC
Danish Financial Supervisory Authority	DENMARK
Dubai Financial Services Authority	DIFC, DUBAI
Superintendencia del Mercado de Valores	DOMINICAN REPUBLIC
Superintendencia de Compañías, Valores y Seguros	ECUADOR
Financial Regulatory Authority*	EGYPT
Superintendencia del Sistema Financiero	EL SALVADOR
Financial Supervision Authority (Finantsinspektion)	ESTONIA
Financial Supervision Authority	FINLAND
Autorité des marchés financiers*	FRANCE
Bundesanstalt für Finanzdienstleistungsaufsicht*	GERMANY
Securities and Exchange Commission	GHANA
Gibraltar Financial Services Commission	GIBRALTAR
Hellenic Republic Capital Market Commission	GREECE
Guernsey Financial Services Commission	GUERNSEY
Securities and Futures Commission*	HONG KONG
Magyar Nemzeti Bank (The Central Bank of Hungary)	HUNGARY
Fjármálaeftirlitið - Financial Supervisory Authority	ICELAND
Securities and Exchange Board of India*	INDIA
Indonesia Financial Services Authority (OJK)*	INDONESIA
Securities and Exchange Organization	IRAN, ISLAMIC REPUBLIC OF

\*Member of the IOSCO Board

# Board observers



Central Bank of Ireland*	IRELAND
Isle of Man Financial Supervision Commission	ISLE OF MAN
Israel Securities Authority	ISRAEL
Commissione Nazionale per le Società e la Borsa*	ITALY
Financial Services Commission	JAMAICA
Financial Services Agency*	JAPAN
Ministry of Agriculture, Forestry and Fisheries	JAPAN
Ministry of Economy, Trade and Industry	JAPAN
Jersey Financial Services Commission	JERSEY
Jordan Securities Commission	JORDAN
National Bank of Kazakhstan	KAZAKHSTAN, REPUBLIC OF
Capital Markets Authority*	KENYA
Financial Services Commission/Financial Supervisory Service*	KOREA, REPUBLIC OF
Capital Markets Authority	KUWAIT
State Service for Financial Market Regulation and Supervision under the Government of the Kyrgyz Republic	KYRGYZ REPUBLIC
Financial and Capital Market Commission	LATVIA, REPUBLIC OF
Financial Market Authority	LIECHTENSTEIN
Bank of Lithuania	LITHUANIA
Commission de surveillance du secteur financier	LUXEMBOURG
Reserve Bank of Malawi	MALAWI
Securities Commission*	MALAYSIA
Capital Market Development Authority	MALDIVES
Malta Financial Services Authority	MALTA
Financial Services Commission	MAURITIUS, REPUBLIC OF
Comisión Nacional Bancaria y de Valores*	MEXICO
Financial Regulatory Commission	MONGOLIA
Securities and Exchange Commission of the Republic of Montenegro	MONTEGRO
Autorité Marocaine du Marché des Capitaux	MOROCCO
The Dutch Authority for the Financial Markets#	NETHERLANDS, THE
Financial Markets Authority	NEW ZEALAND
Securities and Exchange Commission	NIGERIA
Securities and Exchange Commission of the Republic of North Macedonia	NORTH MACEDONIA, REPUBLIC OF
Finanstilsynet (The Financial Supervisory Authority of Norway)	NORWAY
Capital Market Authority	OMAN, SULTANATE OF
Ontario Securities Commission*	ONTARIO, CANADA
Securities and Exchange Commission*	PAKISTAN
Palestine Capital Market Authority	PALESTINE
Superintendencia del Mercado de Valores*	PANAMA
Securities Commission	PAPUA NEW GUINEA
Superintendencia del Mercado de Valores	PERU
Securities and Exchange Commission	PHILIPPINES
Polish Financial Supervision Authority	POLAND
Comissão do Mercado de Valores Mobiliários*	PORTUGAL
Qatar Financial Markets Authority	QATAR
Autorité des marchés financiers (AMF Quebec)*	QUEBEC, CANADA
Financial Supervision Authority (ASF)	ROMANIA
The Bank of Russia	RUSSIA
Capital Market Authority*	SAUDI ARABIA
Securities Commission	SERBIA, REPUBLIC OF
Monetary Authority of Singapore*	SINGAPORE
The National Bank of Slovakia	SLOVAK REPUBLIC
Securities Market Agency/Agencija Za Trg Vrednostnih Papirjev	SLOVENIA
Financial Sector Conduct Authority*	SOUTH AFRICA
Comisión Nacional del Mercado de Valores*	SPAIN
Securities and Exchange Commission of Sri Lanka	SRI LANKA
Securities Commission of the Republic Srpska	SRPSKA, REPUBLIC OF
Finansinspektionen*	SWEDEN
Swiss Financial Market Supervisory Authority*	SWITZERLAND
Syrian Commission on Financial Markets and Securities	SYRIA
Capital Markets and Securities Authority	TANZANIA
Securities and Exchange Commission	THAILAND
Trinidad and Tobago Securities and Exchange Commission	TRINIDAD AND TOBAGO

Conseil du marché financier	TUNISIA
Capital Markets Board*	TURKEY
Turks & Caicos Islands Financial Services Commission	TURKS AND CAICOS ISLANDS
Capital Markets Authority	UGANDA
National Securities and Stock Market Commission	UKRAINE
Securities and Commodities Authority*	UNITED ARAB EMIRATES
Financial Conduct Authority*	UNITED KINGDOM
Commodity Futures Trading Commission*	UNITED STATES OF AMERICA
Securities and Exchange Commission*	UNITED STATES OF AMERICA
Banco Central del Uruguay	URUGUAY
Capital Market Development Agency	UZBEKISTAN
Superintendencia Nacional de Valores	VENEZUELA
State Securities Commission	VIETNAM
Conseil régional de l'épargne publique et des marchés financiers	WEST AFRICAN MONETARY UNION
Securities and Exchange Commission	ZAMBIA

## Associate Members (32)

Financial Services Regulatory Authorities	ABU DHABI
Asian Development Bank	ASIA
Non-Bank Financial Institution Regulatory Authority	BOTSWANA
Securities and Exchange Commission of Cambodia	CAMBODIA
Commission des Marchés Financiers	CAMEROON
Centrale Bank van Curaçao en Sint Maarten	CURAÇAO
European Commission	EUROPEAN UNION
European Securities and Markets Authority#	EUROPEAN UNION
Reserve Bank of Fiji	FIJI, REPUBLIC OF
National Bank Of Georgia	GEORGIA
International Bank for Reconstruction and Development	INTERNATIONAL
International Monetary Fund	INTERNATIONAL
Organisation de coopération et de développement économiques	INTERNATIONAL
Iraq Securities Commission	IRAQ
Securities and Exchange Surveillance Commission	JAPAN
Astana Financial Services Authority	KAZAKHSTAN, REPUBLIC OF
Korea Deposit Insurance Corporation	KOREA, REPUBLIC OF
Labuan Financial Services Authority	LABUAN
Lao Securities Commission	LAO PEOPLE'S DEMOCRATIC REPUBLIC
Capital Markets Authority	LEBANON
Commission de Contrôle des Activités Financières	MONACO, PRINCIPALITY OF
Banco de Moçambique	MOZAMBIQUE
Namibia Financial Institution Supervisory Authority	NAMIBIA
Securities Board of Nepal	NEPAL
Comision Nacional de Valores	PARAGUAY
Qatar Financial Centre Regulatory Authority	QATAR
Capital Market Authority	RWANDA
Financial Services Authority	SEYCHELLES
Prudential Authority	SOUTH AFRICA
Financial Services Regulatory Authority	SWAZILAND
Union of Arab Securities Authorities	UNITED ARAB EMIRATES

## Affiliate Members (67)

Bahamas International Securities Exchange	BAHAMAS
Bahrain Bourse	BAHRAIN, KINGDOM OF
The Bermuda Stock Exchange	BERMUDA
B3 – Brasil, Bolsa, Balcão	BRAZIL
Brazilian Financial and Capital Markets Association	BRAZIL
BSM Market Supervision	BRAZIL
Investment Industry Regulatory Organization	CANADA

\*Member of the IOSCO Board

# Board observer



Mutual Fund Dealers Association	CANADA
Cayman Islands Stock Exchange	CAYMAN ISLANDS
The International Stock Exchange	CHANNEL ISLANDS
Asset Management Association of China	CHINA
China Financial Futures Exchange	CHINA
China Securities Depository and Clearing Corporation Limited	CHINA
China Securities Investor Protection Fund Co., Ltd.	CHINA
Shanghai Stock Exchange	CHINA
Shenzhen Stock Exchange	CHINA
The Securities Association of China	CHINA
Autorregulador del Mercado de Valores de Colombia	COLOMBIA
MISR for Clearing, Depository and Central Registry	EGYPT
European Fund and Asset Management Association	EUROPEAN UNION
Deutsche Börse AG	GERMANY
German Derivatives Association	GERMANY
Hong Kong Exchanges and Clearing Limited	HONG KONG
BSE Limited	INDIA
Multi Commodity Exchange of India Limited	INDIA
National Stock Exchange	INDIA
Indonesia Stock Exchange	INDONESIA
CCP-12- The Global Association of Central Counterparties	INTERNATIONAL
CFA Institute	INTERNATIONAL
FIA	INTERNATIONAL
Financial Planning Standards Board Ltd.	INTERNATIONAL
Global Financial Markets Association	INTERNATIONAL
ICI Global	INTERNATIONAL
International Capital Market Association	INTERNATIONAL
International Swaps & Derivatives Association, Inc.	INTERNATIONAL
Standards Board for Alternative Investments	INTERNATIONAL
The Alternative Investment Management Association Limited	INTERNATIONAL
World Federation of Exchanges Ltd.	INTERNATIONAL
Japan Securities Dealers Association	JAPAN
Central Securities Depository JSC	KAZAKHSTAN, REPUBLIC OF
Japan Exchange Group, Inc.	JAPAN
Korea Exchange	KOREA, REPUBLIC OF
Boursa Kuwait Securities Company	KUWAIT
Kuwait Clearing Company	KUWAIT
Bursa Malaysia	MALAYSIA
The Nigerian Stock Exchange	NIGERIA
Central Securities Clearing Systems PLC	NIGERIA
FMDQ Securities Exchange PLC	NIGERIA
National Association of Securities Market Participants	RUSSIA
Saudi Stock Exchange	SAUDI ARABIA
Singapore Exchange Limited	SINGAPORE
Johannesburg Stock Exchange	SOUTH AFRICA
Bolsas y Mercados Españoles	SPAIN
SIX Swiss Exchange AG	SWITZERLAND
Taipei Exchange	CHINESE TAIPEI
Taiwan Futures Exchange	CHINESE TAIPEI
Taiwan Stock Exchange Corp.	CHINESE TAIPEI
The Stock Exchange of Thailand	THAILAND
Turkish Capital Markets Association	TURKEY
Dubai Gold and Commodities Exchange	UNITED ARAB EMIRATES
LCH.Clearnet Group Limited	UNITED KINGDOM
CME Group	UNITED STATES OF AMERICA
Depository Trust & Clearing Corporation (DTCC)	UNITED STATES OF AMERICA
Financial Industry Regulatory Authority	UNITED STATES OF AMERICA
National Futures Association#	UNITED STATES OF AMERICA
Securities Investor Protection Corporation	UNITED STATES OF AMERICA
Options Clearing Corporation	UNITED STATES OF AMERICA





## INDEPENDENT AUDITORS' REPORT

To the Members of International Organization of Securities Commissions (IOSCO)

### **Opinion**

We have audited the financial statements of International Organization of Securities Commissions (the Organization), which comprise the statement of financial position as at December 31, 2018, and the statement of comprehensive income, statement of changes in net assets and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Organization in accordance with the *International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code)*, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Responsibilities of the Secretary General and the Audit Committee for the Financial Statements**

The Secretary General is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Company's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

DELOITTE, S.L.

Antonio Ríos Cid

Madrid, April 22, 2019

# Financial Statements

## Statement of Comprehensive Income (in Euros)

Year ended December 31, 2018

Notes 1 and 2

	2018	2017
<b>REVENUE</b>		
Contributions from members (Note 3)	5,492,009	5,625,480
Annual Conferences (Note 3)	120,000	120,000
Exchange Gain	359	-
Other	11,629	31,577
2015 Capacity Building Program (Note 14)	-	22,390
<b>Total Revenue</b>	<b>5,623,997</b>	<b>5,799,447</b>
<b>EXPENSES</b>		
Salaries and employee benefits (Note 4)	3,372,331	2,941,114
Rental and maintenance (Note 13)	88,280	107,053
Travelling	383,926	429,699
Office Supplies	36,128	58,307
Organization and follow up of meetings	110,350	85,897
Telecommunications	61,738	66,001
Delivery and communication	5,506	3,037
Printing and Annual Report	28,064	20,319
Information Technology	210,840	178,891
Professional fees	184,792	134,693
Educational programs and Technical Assistance	327,610	252,286
Miscellaneous	54,445	48,848
Exchange loss	-	14,673
PIOB Funding (Note 5)	100,000	100,000
Amortization of capital assets (Note 7)	66,532	49,188
2015 Capacity Building Program (Note 14)	-	22,390
<b>Total Expenses</b>	<b>5,030,542</b>	<b>4,512,396</b>
Taxation (Note 11)	-	-
<b>Excess of revenue over expenses before tax</b> (expenses over revenue)	<b>593,455</b>	<b>1,287,051</b>
Other comprehensive income net of tax	-	-
<b>Total comprehensive income for the year net of tax</b>	<b>593,455</b>	<b>1,287,051</b>

The accompanying notes are an integral part of the financial statements.



## Statement of Financial Position (in Euros)

Year ended December 31, 2018

Notes 1 and 2

	2018	2017
<b>ASSETS</b>		
Current assets		
Cash (Note 6)	5,044,937	3,058,270
Term Deposits (Note 6)	3,000,000	4,265,000
Accounts Receivable (Note 8)	55,479	110,846
Prepaid Expenses (Note 9)	75,500	26,712
	<b>8,175,916</b>	<b>7,460,828</b>
Capital Assets (Note 7)	207,452	215,720
<b>Total Assets</b>	<b>8,383,368</b>	<b>7,676,548</b>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts Payable and accrued liabilities (Note 8)	402,066	487,653
Contributions received in advance (Note 3)	423,293	224,341
<b>Total Liabilities</b>	<b>825,359</b>	<b>711,994</b>
<b>MEMBERS' FUNDS</b>		
Excess of revenue over expenses net of tax (expenses over revenue)	593,455	1,287,051
Unrestricted members' funds	6,964,554	5,677,503
<b>Total members' Funds</b>	<b>7,558,009</b>	<b>6,964,554</b>
<b>Total liabilities and members' Funds</b>	<b>8,383,368</b>	<b>7,676,548</b>

The accompanying notes are an integral part of the financial statements.

## Statement of Changes in Net Assets (in Euros)

Year ended December 31, 2018

Notes 1 and 2

		2018	2017
	UNRESTRICTED	TOTAL	TOTAL
Balance, beginning of year	6,964,554	6,964,554	5,677,503
Excess of revenue over expenses net of tax (expenses over revenue)	593,455	593,455	1,287,051
<b>Balance, end of year</b>	<b>7,558,009</b>	<b>7,558,009</b>	<b>6,964,554</b>

The accompanying notes are an integral part of the financial statements.



## Statement of Cash Flows (in Euros)

Year ended December 31, 2018

Notes 1 and 2

	2018	2017
<b>OPERATING ACTIVITIES</b>		
Total comprehensive income for the year net of tax	593,455	1,287,051
Depreciation of capital assets (Note 7)	66,532	49,188
Decrease (increase) in working capital items (Note 10)	119,944	(27,744)
(Gains)/Losses on disposal of non-financial assets	(1,100)	(9,044)
<b>Net cash generated</b>	<b>778,831</b>	<b>1,299,451</b>
<b>INVESTING ACTIVITIES</b>		
Term deposits transactions (Note 6)	1,265,000	(1,265,000)
Capital expenditures (Note 7)	(57,164)	(175,606)
<b>Net cash used</b>	<b>1,207,836</b>	<b>(1,440,606)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>1,986,667</b>	<b>(141,155)</b>
Cash and cash equivalents, beginning of period	3,058,270	3,199,425
<b>Cash and cash equivalents, end of period</b>	<b>5,044,937</b>	<b>3,058,270</b>
<b>CASH AND CASH EQUIVALENTS</b>		
Cash (Note 6)	5,044,937	3,058,270
	<b>5,044,937</b>	<b>3,058,270</b>

The accompanying notes are an integral part of the financial statements.

# 1 Governing Statutes and Purpose of the Organization

The International Organization of Securities Commission (hereinafter IOSCO or “the Organization”) is an association of securities regulatory organizations. It was incorporated as a non-profit organization under a private act in Canada (L.Q. 1987, Chapter 143) sanctioned by the Quebec National Assembly, is recognized by the Spanish Government by means of the Third Additional Disposition of Law 55/1999 and whose legal framework is constituted, mainly, by the “Headquarters Agreement between the Kingdom of Spain and the International Organization of Securities Commissions” published in the Spanish Official State Bulletin on 17 December 2011 (HQA), and having its domicile in Madrid.

IOSCO is the international body that brings together the world’s securities regulators and is recognized as the global standard setter for the securities sector. Its current membership comprises regulatory bodies from over one hundred and thirty jurisdictions who have day-to-day responsibility for securities regulation and the administration of securities laws. IOSCO develops, implements and promotes adherence to internationally recognized standards for securities regulation. It works intensively with the G20 and the Financial Stability Board (FSB) on the global regulatory reform agenda.

The IOSCO Objectives and Principles of Securities Regulation have been endorsed by both the G20 and the FSB as the relevant standards in this area. They are the overarching core principles that guide IOSCO in the development and implementation of internationally recognized and consistent standards of regulation, oversight and enforcement. They form the basis for the evaluation of the securities sector for the Financial Sector Assessment Programs (FSAPs) of the International Monetary Fund (IMF) and the World Bank.

By providing high quality technical assistance, education and training, and research to its members and other regulators, IOSCO seeks to build sound global capital markets and a robust global regulatory framework.

The IOSCO objectives are:

- > to cooperate in developing, implementing and promoting adherence to internationally recognized and consistent standards of regulation, oversight and enforcement in order to protect investors, maintain fair, efficient and transparent markets, and seek to address systemic risks;
- > to enhance investor protection and promote investor confidence in the integrity of securities markets, through strengthened information exchange and cooperation in enforcement against misconduct and in supervision of markets and market intermediaries; and
- > to exchange information at both global and regional levels on their respective experiences in order to assist the development of markets, strengthen market infrastructure and implement appropriate regulation.

## 2 Accounting policies

### Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The financial statements are prepared in Euros which is the organization’s functional currency.

These financial statements were authorized for issue by the Secretary General of the Organization on 1 April 2019.



## Measurement bases

The financial statements have been prepared on an accrual basis with all assets and liabilities, valued at cost or at amortized costs.

## Accounting estimates

The preparation of these financial statements, which are in conformity with IFRS, requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates are based on management's best knowledge of current events and actions that the Organization may undertake in the future. Actual results may differ from these estimates.

## Revenue and cost recognition

Membership contributions are recognized as income only upon accrual and receipt. When contributions are received in advance and designated for future reporting periods, they are recognized as liabilities (revenue received in advance).

Operating costs are recognized as an expense when incurred.

## Employee entitlements

Employee salaries, social security and other related benefits are recognized in the Statement of the Comprehensive Income when they are earned. Contributions to staff pension plans and retirement entitlements are recognized when they become due.

## Capital assets

Capital assets are recorded at cost less accumulated depreciation. Any impairment in the net recoverable amount as compared to the net carrying amount is recognized immediately.

Gains and losses on disposal are included in the Statement of Comprehensive Income.

Capital assets are depreciated over their estimated useful lives according to the following methods and annual rates:

	<b>Methods</b>	<b>Rates</b>
Furniture and fixtures	Straight-line	20%
Computer equipment		
Computers and Software	Straight-line	33%
Servers	Straight-line	20-25%

## Foreign currency translation

Given that the Organization's functional and presentational currency is Euros, foreign currency transactions are accounted for in Euros at the rates of exchange prevailing at the transaction date. Exchange gains or losses on settlement of balances are recognized in the Statement of Comprehensive Incomes when they arise.

Monetary assets and liabilities denominated in foreign currencies are recognized in Euros at the foreign exchange rate at the end of the reporting period. Foreign exchange differences arising on translation are included in the Statement of Comprehensive Income.

### 3 Revenue

Contributions from members include (1) membership fees collected during the year, corresponding to contributions due for the reporting period, (2) previous reporting periods (including interests on arrears) and (3) contributions from agencies applying for membership.

Annual Meeting revenue represents the contribution from the member hosting the Annual Meeting.

Other revenue is comprised primarily of interest income from term deposits (see Note 6).

The account “Contributions received in advance” of the statement of financial position at 31 December 2018 includes funding received from members in 2018, amounting to €423,293 which is designated for subsequent periods (contributions of €224,341 received in advance during 2017). Part of these contributions correspond to membership fees, contributions received in advance associated to the Secondments Program, the remainder correspond to contributions received in advance from nominated Board members to fund the 2015 Capacity Building Program (see note 14). The IOSCO Board agreed that the unspent budget from the 2015 Capacity Building Program would be carried over to fund further activities related to the IOSCO Capacity Building Online Toolkit in 2019.

The detail of contributions received in advance is provided in the chart below:

	2018	2017
Members' contributions	305,774	106,822
2015 Capacity Building Program	117,519	117,519
<b>Total contributions received in advance</b>	<b>423,293</b>	<b>224,341</b>

(in Euros)

### 4 Salaries and employee benefits and secondment program

The average staff of the General Secretariat in 2018 and 2017 is shown in the chart below:

	2018			2017		
	Men	Women	Total	Men	Women	Total
Permanent staff	12	12	24	10	12	22
Secondees	4	2	6	4	2	6
Intern	-	-	-	1	-	1
<b>Total Staff</b>	<b>16</b>	<b>14</b>	<b>30</b>	<b>15</b>	<b>14</b>	<b>29</b>



Total salary and employee benefits' cost are shown in the chart below:

	2018	2017
Gross salaries	2,619,849	2,323,356
Spanish social security	351,083	300,617
Other social benefits	401,399	317,141
<b>Total salaries and employee benefits</b>	<b>3,372,331</b>	<b>2,941,114</b>

(in Euros)

In 2018, the Organization had the benefit of seconded staff from the Securities and Exchange Commission of Bangladesh (BSEC), the Bundesanstalt für Finanzdienstleistungsaufsicht of Germany (BaFin), the Financial Services Agency of Japan (JFSA), the Financial Supervisory Service of Korea (FSS), the Financial Services Commission of Mauritius (FSC), the Securities and Exchange Commission of Nigeria (SEC) and the Financial Conduct Authority of United Kingdom (FCA).

To extend to secondees the benefits granted to IOSCO staff by the HQA, the Organization typically enters, as part of the secondment program, into a trilateral agreement with the sponsoring member and the secondee, whereby it offers the secondee an employment contract in Spain.

Secondment program revenue includes contributions from members sponsoring staff to join the General Secretariat on a temporary basis. These contributions generally cover a portion of the seconded staff's salary costs paid through the Organization. Revenue is recognized based on the terms, amounts and payment schedule determined by the Secondment agreement between the Organization and the sponsoring member. The amounts payable to the secondee as part of the respective employment contract are recognized and accrued as an expense. To enhance comparability, the amounts corresponding to the secondment program, both in terms of revenue and expenditure, have been offset in the Statement of Comprehensive Income. Consequently, the net difference between revenue and subsidized costs arising from social security adjustment is recognized on a net basis in the income statement under the "Salaries and employee benefits" account, as shown in the chart below:

	2018	2017
Revenue associated to the Secondment Program	192,474	337,700
Subsidized expenditure associated to the Secondment Program	(195,324)	(336,313)
<b>Net as at December 31, 2018</b>	<b>(2,850)</b>	<b>1,387</b>

(in Euros)

In addition, as part of the secondment agreements and in compliance with the IOSCO Secondment Program, IOSCO assumes certain costs, which are also recognized in the income statement in the "Salaries and employees benefits" account, including costs related to the moving and relocation of the secondees from their country of origin to Madrid, amounting to €55,776 (€63,639 for the year 2017).

In a minority of cases, no trilateral agreement is executed because the sponsoring member continues to provide all the employment, administrative and financial requirements with respect to the secondee. When this occurs, IOSCO has no direct, formal employment link with the secondee and has no financial obligation. Accordingly, revenue and the related expenditure are not accrued.

Also, the "Salaries and employees benefits" heading in the statement of comprehensive income as of 31 December 2018 includes two additional distinct items.

First, this figure takes into account the contributions made by IOSCO to full time employees' defined contribution pension plans. As context, the Board and the Presidents Committee agreed, in June 2016, as part of the 2020 Strategic Direction decision, that permanent IOSCO staff would receive contributions to private pension arrangements. Accordingly, on an annual basis, the IOSCO Board approves the Organization's budget, including a line item related to salaries and employee benefits, which includes a provision for pension plan contributions for permanent staff. The pension contribution was operationalized in a Unit Linked managed by Aegon España, S.A.U. de Seguros y Reaseguros. This, along with other staff pension allowances, amounted to €225,246 (€181,973 in 2017).

Second, in addition to the moving and relocation costs related to secondees noted above, this line item also includes full time employees' medical insurance, moving and relocation costs which have been assumed by IOSCO. This figure amounts to €130,397 (€79,458 for the year 2017).

## 5 PIOB Funding

The Public Interest Oversight Board (PIOB) was formally established in February 2005 as part of the IFAC Reform Proposals with the objective to increase investor and other stakeholder confidence that IFAC's public interest activities, including standard setting by IFAC's independent boards, are properly responsive to the public interest.

With a view to diversifying funding sources for the PIOB, the IOSCO Executive Committee decided in October 2011 to provide the PIOB with a direct financial contribution of one hundred thousand Euros per year, starting in 2013.

IOSCO contributed €100,000 to the PIOB in 2018 and in 2017.

## 6 Cash and Term Deposits

Cash is held in non-remunerated current bank accounts denominated in Euros in Caixabank, Santander Private Banking, Bankinter and BBVA, all EU entities with an upper medium credit rating. Cash balances include a small portion held in US dollar amounts.

Cash is also held in bank deposits. The basic terms of the bank deposits as of 31 December 2018 are shown in the chart below:

Counterparty (in Euros)	Currency	Contract date	Maturity date	2018	
				Annualized interest rate	Amounts
Banco Santander*	Euro	10/03/2018	10/04/2020	0.029%	500,000
Banco Santander*	Euro	14/03/2018	14/04/2020	0.029%	500,000
Banco Santander*	Euro	17/03/2018	17/04/2020	0.029%	500,000
Banco Santander*	Euro	20/03/2018	20/04/2020	0.029%	500,000
Banco Santander*	Euro	01/04/2018	01/05/2020	0.029%	500,000
Banco Santander*	Euro	07/04/2018	07/05/2020	0.029%	500,000
<b>Total as at December 31, 2018</b>					<b>3,000,000</b>

(\*) Term deposits with quarterly liquidity windows



Counterparty (in Euros)	Currency	Contract date	Maturity date	2017	
				Annualized interest rate	Amounts
Counterparty	Currency	Contract date	Maturity date	Annualized interest rate	Amounts
Banco Santander*	Euro	10/02/2016	10/03/2018	0.649%	500,000
Banco Santander*	Euro	14/02/2016	14/03/2018	0.649%	500,000
Banco Santander*	Euro	17/02/2016	17/03/2018	0.649%	500,000
Banco Santander*	Euro	20/02/2016	20/03/2018	0.649%	500,000
Banco Santander*	Euro	01/03/2016	01/04/2018	0.649%	500,000
Banco Santander*	Euro	07/03/2016	07/04/2018	0.649%	500,000
Bankinter	Euro	03/05/2017	03/05/2018	0.10%	165,000
Bankinter	Euro	03/05/2017	03/05/2018	0.10%	500,000
Bankinter	Euro	03/05/2017	03/05/2018	0.25%	600,000
<b>Total as at December 31, 2017</b>					<b>4,265,000</b>

(\*) Term deposits with quarterly liquidity windows

## 7 Capital Assets

	Vehicles	Furniture and fixtures	Computer equipment	2018 Total
At the lower of recoverable value and cost				
Balance, beginning of year	-	242,727	721,644	964,371
Additions	-	41,495	17,812	59,307
Disposals	-	-	(27,303)	(27,303)
<b>Balance, end of year</b>	-	<b>284,222</b>	<b>712,153</b>	<b>996,375</b>
Accumulated depreciation				
Balance, beginning of year	-	(99,903)	(648,748)	(748,651)
Depreciation	-	(36,571)	(29,961)	(66,532)
Disposals	-	-	26,260	26,260
<b>Balance, end of year</b>	-	<b>(136,474)</b>	<b>(652,449)</b>	<b>(788,923)</b>
<b>Net as at December 31, 2018</b>	-	<b>147,748</b>	<b>59,704</b>	<b>207,452</b>

(in Euros)

	Vehicles	Furniture and fixtures	Computer equipment	2017 Total
At the lower of recoverable value and cost				
Balance, beginning of year	37,561	106,227	662,538	806,326
Additions	-	136,500	59,106	195,606
Disposals	(37,561)	-	-	(37,561)
<b>Balance, end of year</b>	-	<b>242,727</b>	<b>721,644</b>	<b>964,371</b>
Accumulated depreciation				
Balance, beginning of year	(23,475)	(81,359)	(621,234)	(726,068)
Depreciation	(3,130)	(18,544)	(27,514)	(49,188)
Disposals	26,605	-	-	26,605
<b>Balance, end of year</b>	-	<b>(99,903)</b>	<b>(648,748)</b>	<b>(748,651)</b>
<b>Net as at December 31, 2017</b>	-	<b>142,824</b>	<b>72,896</b>	<b>215,720</b>

(in Euros)

## 8 Accounts receivable and accounts payable and accrued liabilities

### a) Accounts receivable

	2018	2017
Secondment contributions (See Note 4)	54,612	54,940
Other	867	55,906
<b>Total Accounts receivable</b>	<b>55,479</b>	<b>110,846</b>

(in Euros)

### b) Accounts payable and accrued liabilities

	2018	2017
Professional services	65,907	39,073
Occupancy (See Note 13)	70,000	75,000
Spanish Taxes (employee's income tax withheld) and Social Security	145,616	128,760
Contractual staff commitments (See Note 4)	14,231	134,966
Travel	21,999	31,728
Other	84,313	78,126
<b>Total Accounts payable and accrued liabilities</b>	<b>402,066</b>	<b>487,653</b>

(in Euros)

## 9 Prepaid expenses

Prepaid expenses comprise advance payments in the reporting period relating to services to be rendered in subsequent periods. They are carried on the balance sheet until the service is rendered and expenses are recognized in the income statement.

Detail of prepaid expenses at 31 December 2018 and 2017 is as follows:

	2018	2017
Travel booked in advance for subsequent periods	12,224	26,712
Professional fees and IT	52,634	-
Other	10,642	-
<b>Total Prepaid expenses</b>	<b>75,500</b>	<b>26,712</b>

(in Euros)



## 10 Information Included in the Statement of Cash Flows

The increases (decreases) in working capital items are detailed as follows:

	2018	2017
Accounts receivable	(55,367)	(50,903)
Prepaid expenses	48,788	18,192
Accounts payable and accrued liabilities	85,587	(96,639)
Contributions received in advance	(198,952)	157,094
<b>Increases (decreases) in working capital</b>	<b>(119,944)</b>	<b>27,744</b>

(in Euros)

## 11 Taxation

On 29 December 1999, the Spanish Parliament passed legislation (Law 55/1999), to exempt the Organization from Spanish income tax. On 23 November 2011, IOSCO signed a Headquarters Agreement with the Kingdom of Spain which also incorporates the same income tax exemption.

## 12 Government Assistance

Under the headquarters agreement, the Spanish Authorities grant IOSCO the right to use a 56% share of the 12 Oquendo premises free of charge, exclusive of non-structural maintenance costs. The estimated revenue in kind associated with the 56% share is €319,890 for 2018 (€219,811 in 2017). This estimate is based on the value of the right to use the 56% share of our headquarters, taking as a reference an independent appraisal by a professional valuer issued in February 2019.

IOSCO has also entered into an agreement with the Spanish securities regulator, Comisión Nacional del Mercado de Valores (CNMV), under which the parties agreed that the CNMV would be responsible for meeting the costs of security and maintenance of security systems on the IOSCO premises; insuring the premises; and covering municipal and local property taxes. These revenues in kind have been estimated at €78,836 for 2018 (€77,050 in 2017).

## 13 Rental and Maintenance

Rental and maintenance costs include non-structural maintenance costs assumed by the Spanish Authorities which are later re-charged to IOSCO in accordance to the headquarters agreement and IOSCO's 56% share of its premises, and other external maintenance services borne directly by IOSCO. Non-structural maintenance costs include general maintenance and repairs, electricity, water and gardening.

	2018	2017
Estimated Spanish Authorities' charges for non-structural maintenance costs (see Note 12)	70,000	75,000
Other external maintenance services	18,280	32,053
<b>Total rental and maintenance</b>	<b>88,280</b>	<b>107,053</b>

(in Euros)

## 14 2015 Capacity Building Program

In June 2014, the IOSCO Board approved a pilot program for additional capacity building activities to be carried out by the General Secretariat. These activities included the creation of an Online Toolkit and the organization of two additional regional training seminars. These capacity building activities for IOSCO members are in addition to the long-standing and on-going IOSCO education and training activities.

The Board also agreed that the pilot program would be funded by a one-off contribution of €15,000 from each nominated member to the IOSCO Board, to be paid in 2015 as a supplement to their 2015 annual membership contribution fees. The IOSCO Presidents Committee ratified this agreement in its resolution 2/2014.

IOSCO received a total of €240,000 in 2015 from 16 nominated Board members.

The total costs incurred since the approval of the pilot program for CB activities is €122,481. During the course of 2017, the Board agreed to use the unspent funds to further enhance the pilot program. In 2018 IOSCO has not incurred any costs related to the pilot program (€22,390 incurred in 2017). Therefore, the remainder of the 2015 CB program (€117,519) has been carried over to 2019.

The unspent funds of €117,519 have been recognized as contributions received in advance from members (see note 3).

## 15 Auditors' remuneration

The total remuneration to be paid by IOSCO to its auditors is €9,400 for 2018 (€9,000 in 2017).

## 16 Subsequent Events

In the opinion of the management, there are no significant events that need to be reported.

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<sup>1</sup> Annex A of the Presidents Committee Resolution on the composition of the IOSCO Board (Resolution 5/2013). Nominated Board members are the 18 members from jurisdictions with the largest markets, based on measures of equity market capitalization, debt market issuance, assets under management and derivatives trading.





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