

Activities of IOSCO's Policy Committees in the Year

The IOSCO Board reviews the regulatory issues facing international securities markets and coordinates practical policy responses to address the concerns they raise. Eight policy committees conduct IOSCO substantive work under the guidance of the Board and supported by the General Secretariat:

- > Issuer Accounting, Audit and Disclosure;
- > Regulation of Secondary Markets;
- > Regulation of Market Intermediaries;
- > Enforcement and the Exchange of Information;
- > Investment Management;
- > Credit Rating Agencies;
- > Derivatives; and
- > Retail Investors.

The Board also oversees the activities of the Growth and Emerging Markets (GEM) Committee. This committee seeks to develop and improve the efficiency of emerging securities markets through the development of standards, recommendations, best practices and guidance, the provision of training programs for members' regulatory staff and facilitating the exchange of information, technology and expertise. The GEM and the eight committees support IOSCO in pursuit of its three main objectives of protecting investors, maintaining fair, efficient and transparent markets and mitigating systemic risks.

In addition to the policy committees, several task forces examined relevant developments in the financial markets. These task forces included:

- > 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:

Mr. Makoto Sonoda (FSA Japan)

Committee Vice Chair:

Mr. Nigel James (US SEC)

Committee 1 on Issuer Accounting, Audit and Disclosure (C1) is devoted to delivering IOSCO's investor protection mandate by improving the development and maintenance of high-quality international accounting and auditing standards, enhancing financial reporting and audit quality and improving the quality and trans-



parency of the disclosure and financial information that investors receive from listed companies.

To facilitate investor access to reliable 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, providing the IASB with input that reflects the perspective of securities regulators.

The Statement of Protocols signed by IOSCO and the IFRS Foundation in 2013, and later strengthened in 2016, underpins the collaboration between the two organizations. At its meeting in Madrid in October 2019, the Board met and discussed with the Chairs of the IFRS Foundation Trustees and the IASB the following issues: (i) the consistent implementation and application of IFRS, (ii) the standard-setting agenda, (iii) the impact of Fintech and financial innovation in corporate reporting, (iv) the increasing investor demand for non-financial disclosures and other sources of financial information, and (v) valuations and the work by the International Valuation Standards Council (IVSC) on financial instruments.

Committee 1 also represents IOSCO in its capacity as an official observer to the International Forum of International Regulators (IFIAR). The committee's Vice Chair attended the IFIAR Plenary in April 2019.

IOSCO currently chairs the Monitoring Board (MB) that oversees the IFRS Foundation, where it also holds a seat in representation of the IOSCO Growth and Emerging Markets Committee. IOSCO believes that a set of international auditing standards has an important role to play in contributing to global financial reporting and supporting investor confidence

and decision making. To that end, Committee 1 monitors the activities of two of the International Federation of Accountant's standard setting bodies: The International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA) and participates in their respective Consultative Advisory Groups (CAGs).

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

IOSCO is a founding member and current Chair of the Group (MG) of international organizations that is committed to advancing the public interest in areas related to international audit standard-setting and audit quality. In 2019, IOSCO acted 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 and the World Bank.

In November 2017, the Monitoring Group issued a consultation paper on *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 consultation paper set out various options to enhance the governance, accountability and oversight of the international audit standard-setting process. After reviewing the 180 comments from a wide range of stakeholders, the Monitoring Group began work in 2019 on the final reform proposal, which will be submitted to the members of the Monitoring Group in 2020 for approval.

Other Activities in 2019

In January 2019, IOSCO published the final report on *Good Practices for Audit Committees in Supporting Audit Quality*, to assist audit committees of issuers of listed securities in promoting and supporting audit quality. For example, the report sets out good practices regarding the features that an audit committee should have to be more effective in its role, including matters such as the qualifications and experience of audit committee members.

IOSCO monitors developments regarding the disclosure of Environmental, Social and Governance (ESG) information, including private-sector initiatives that promote a voluntary framework. It also continues to

interact with different forums and task forces, issuers and investor groups about the latest developments regarding disclosure of ESG information, in part to understand market participants' perspectives and expectations regarding disclosure of ESG information.

In January 2019, Committee 1 issued an IOSCO Statement explaining the importance for issuers of disclosing information on ESG matters to assist investors in their investment decisions.

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. The work of Committee 2 focuses on issues relating to investor protection, market integrity and fair and efficient markets.

The regulation of platforms trading crypto assets

In May 2019, Committee 2 published a consultation paper on *Issues, Risks and Regulatory Considerations relating to Crypto-Asset Trading Platforms (CTP)*, after analyzing the regulatory approaches of its member jurisdictions in this area. The paper sets forth key considerations to assist regulatory authorities in addressing the risks and issues that it identifies.

Many of the issues related to the regulation of CTPs are common to traditional securities trading venues but may be heightened by how CTPs are operated. Where a regulatory authority has determined that a crypto-asset is a security and falls within its remit, the basic principles or objectives of securities regulation should apply. As a result, the report is clear that the IOSCO Principles and Methodology provide useful guidance for regulatory authorities.

The committee published the final paper in February 2020.

Clock Synchronization

In September 2019, Committee 2 issued a proposed recommendation that trading venues and their participants synchronize the clocks they use for timestamping a reportable event with coordinated universal time (UTC).

This is important for establishing a clear audit trail of when trading events occur in the secondary markets and because more trading takes place across multiple venues in different jurisdictions and at faster speeds. The recommendation proposes that if business clocks are synchronized, they should be synchronized to a common time – UTC.

IOSCO issued the final recommendation in January 2020.

Liquidity Provision in Secondary Markets

During 2019, Committee 2 conducted a review of the issues related to market making and liquidity provision in equity markets. Although many trading venues continue to use formal market makers, an array of recent technological and regulatory changes have cleared the way for other market participants to provide liquidity in a way similar to market makers, but without the same obligations. Committee 2 has analyzed how recent changes to market structure may have affected liquidity and market quality for less liquid securities.

The committee expects to publish a report examining the evolution of market making and liquidity provision in mid-2020.

Market Data

For this work, in 2019, Committee 2 examined the various issues associated with market data, such as the access to data and its cost. It plans to issue a report in 2020.

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 policy work on issues related to market intermediaries.

Conflicts of interest and associated conduct risks during the capital raising process: Stage Two on Debt Capital Raising

In 2019, Committee 3 published stage two of its project on conflicts of interest and associated conduct risks during the capital raising process. In December, the committee issued a consultation report on *Conflicts of interest and associated conduct risks during the debt capital raising*

process, which describes how the role of intermediaries might give rise to conflicts of interest during the debt raising process. The report sets out guidance for regulators to address these identified conflicts of interests and the potential harm they may cause.

In September 2018, IOSCO published the first stage of this project: *Conflicts of interest and associated conduct risks during the equity capital raising process*. The report provides guidance for regulators comprised of eight measures grouped according to the various stages in the equity capital raising process.

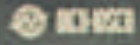
Work on Digitalization and Cross-Border Distribution (Follow-up to Retail OTC Leveraged Products Project)

In October 2019, the IOSCO Board approved a project specification for Committee 3 to undertake

work on cross border distribution and digitalization, as a follow up to the 2018 *Report on Retail OTC Leveraged Products*. The 2018 report comprises three complementary toolkits developed by three separate policy committees and contains measures aimed at protecting retail investors who are offered OTC leveraged products, often on a cross-border basis. The report covers the marketing and sale of rolling-spot forex contracts, contracts for differences (CFDs) and binary options. The latest project goes beyond these high-risk, complex financial products to include things such as crypto assets that are also offered, advertised and marketed online.

The Board identified crypto assets and retail distribution and digitalization as two of its five priorities for 2019.





www.iosco.org
10-11 May
Sydney Australia

IOSCO 2019 Sydney



16

24

5





Committee 4 on Enforcement and the Exchange of Information

Committee Chair:

Mr. Jean-Francois Fortin (Québec AMF)

Committee Vice Chair:

Andrew Cotterell (UK FCA)

Committee 4 on Enforcement and the Exchange of Information regarding the investigation of violations of securities and derivatives laws, best practices for the enforcement of these laws and international cooperation in investigations. It provides a platform for members to share experiences in identifying and addressing emerging types of misconduct.

Enforcement Cooperation

Committee 4 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), the international standard for cooperation and information exchange. Cooperation among regulators on enforcement is essential to sustain effective global regulation and robust securities markets around the globe.

In 2019, several IOSCO members signed the MMoU, bringing the total number of signatories to 124 by year end, out of a total of 157 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 2019, fourteen 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 the MMoU as part of its mandate. Over the years, its efforts have proved successful, as many of those jurisdictions have become IOSCO members and signatories to the IOSCO MMoU. Committee 4 also implements strategies to support aspiring signatories, often with the assistance of other

organizations such as the IMF and the support of the General Secretariat.

Information sharing on technological tools

In recognition of the potential of technology to improve enforcement by increasing efficiency, enhancing decision-making and deterring securities violations, Committee 4, in collaboration with the Québec Autorité des marchés financiers, agreed in 2017 to organize a semi-annual conference that allows regulators to share existing data analytic practices and techniques for addressing enforcement issues.

Thus, in April 2019, the US Securities and Exchange Commission hosted the third edition of the Technology Applied to Securities Markets Enforcement Conference on new emerging technologies to assist enforcement efforts.

The UK Financial Conduct Authority organized the second 2019 conference in London, which focused on data analytics related to market misconduct enforcement.

Emerging Digital Threats

Committee 4's initiative on emerging digital threats arose from its discussions on how to use its members' experience in enforcement to contribute to IOSCO's work on initial coin offerings (ICOs). The committee agreed to broaden the scope of its work on ICOs to include emerging digital threats, based on the premise that wrongdoers will increasingly depend on new technologies to commit their offenses.

As part of this work, Committee 4 launched an emerging digital threats portal for IOSCO members in May 2019. The portal is designed to provide information to help ordinary and associate members respond to the threats posed by emerging digital activities in global capital markets. It began with a focus on the risks arising from the marketing of, and investment in, crypto assets but is expected to widen its scope further to include other digital threats as they arise.

Enforcement of Monetary Sanctions and Penalties in a Foreign Jurisdiction

In December 2019, the Board approved a mandate for Committee 4 to develop a resource paper with information to assist security regulators to enforce recovery of financial penalties and freezing of assets located in another jurisdiction.

Committee 5 on Investment Management

Committee Chair:

Mr. Robert Taylor (UK FCA)

Committee Vice Chair:

Ms. Vanessa Casano (AMF France)

Work on Structural Vulnerabilities in Asset Management Activities

In 2019, Committee 5 on Investment Management advanced its work to identify potential vulnerabilities in asset management activities that could impact financial stability, as part of its effort to take forward the recommendations in the Financial Stability Board report *Policy Recommendations to Address Structural Vulnerabilities from Asset Management Activities*, published in January 2017.

This work, part of the on-going effort to build a robust, sustainable system of market-based finance, gave rise to earlier reports on Loan Funds in 2017 and Liquidity Management in 2018.

As part of this work, in December 2019, Committee 5 published a two-step framework designed to facilitate monitoring of leverage in investment funds that could potentially pose risks to financial stability. The framework, outlined in the report on *Recommendations for a Framework Assessing Leverage in Investment Funds*, comprises a two-step process aimed at achieving a meaningful and consistent assessment of leverage-related risks of a fund or group of funds.

The recommendations aim to achieve a balance between precise leverage measures and simple, robust metrics that regulators can apply consistently to the wide range of funds offered in their jurisdictions. Step 1 indicates how regulators could exclude from consideration funds that are unlikely to produce financial stability risks while filtering out for further analysis a subset of funds that may pose such risks. Step 2 entails a risk-based analysis of the subset of funds identified in Step 1.

ETF Work

In 2019, Committee 5 began an effort to identify the underlying risks and regulatory issues arising from the growth in Exchange Traded Funds (ETFs). In July 2019, the committee conducted a survey of its members to determine how their jurisdictions have implemented IOSCO's 2013 *Principles for the Regulation of the Exchange Traded Funds*. It delivered a Thematic Paper on ETFs to the October 2019 Board meeting, which

covered a range of regulatory issues related to the intermediation of ETFs, including potential investor-related and market-facing risks that could arise from the growth in ETF's popularity.

Going forward, the committee will consider whether to update the ETF Principles, taking into account the survey results and technological and other developments since 2013 that could have an impact on these funds.

Hedge Fund Survey

In 2019, Committee 5 prepared its fifth *IOSCO Hedge Fund Survey*, which provides an overview of the hedge fund industry based on data collected as of 30 September 2018. IOSCO published the survey report in early 2020.

Given the lack of public and global data on hedge fund activities, IOSCO's biennial survey has become an increasingly useful 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, it has expanded and enhanced the data collection process.

Index Providers

Committee 5 created a working group in 2019 to review conduct issues regarding index providers, which the Board had declared a work priority. The committee conducted a survey of its members to identify, among other things, potential conflicts of interest involving index providers.

Fund Exposure to Crypto Assets

In 2019, Committee 5 created a working group to examine issues arising from fund exposure to crypto assets, a Board priority included in the IOSCO 2019 work program.

Committee 6 on Credit Rating Agencies

Committee Chair:

Ms. Rita Bolger (US SEC)

Committee Vice Chair:

Vacant

In 2019, Committee 6 on Credit Rating Agencies (CRAs) contributed to IOSCO's cross-committee project on outsourcing. This work is aimed at gaining a better understanding of how outsourcing integrates with

cloud computing and how CRAs incorporate both in their organizational structure and strategies.

Committee 6 has now moved to 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 global derivatives markets.

Review of the Principles for the Regulation and Supervision of Commodity Derivatives Markets

In late 2019, Committee 7 began work to review and possibly update the *Principles for the Regulation and Supervision of Commodity Derivatives Markets*. These Principles were issued in 2011 to help ensure that commodity derivative markets serve their function of facilitating price discovery and hedging while remaining free of manipulation and abusive trading.

In recent years, commodity derivatives markets have evolved due to developments such as electronic trading and other new technologies, the growing role of unregulated firms in these markets and the increasing need for cyber-security and resilience, among other things.

Accordingly, Committee 7 began to analyze the impact of these developments on commodity derivatives markets to determine how well the Principles continue to serve as a framework for the regulation of commodity derivatives markets and to revise them, as necessary. In November 2019, the Board approved a mandate for this work, and Committee 7 established a Core Working Group to identify areas where revision may be needed.

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*. After looking at the principal areas of reform -- clearing, margining, exchange/platform trading, capital leverage and reporting -- Committee 7 undertook further investigation in the following two areas in 2019:

- > *Market structure*: The committee is looking at the possible impact of OTC derivatives reforms on the structure of OTC derivatives markets and 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 analyze and understand the practical effects of different reporting schemes and whether they 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.

To advance this work, the committee held roundtables with stakeholders in Paris in February and in Chicago in June 2019, after holding a similar event in Singapore in November 2018.

Committee 8 on Retail Investors

Committee Chair:

Mr. José Alexandre Cavalcanti Vasco (CVM Brazil)

Committee Vice Chair:

Mr. Pasquale Munafó (CONSOB Italy)

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

Policy Work

Committee 8 published two reports in 2019. The first report focused on a core competencies framework on financial literacy while the second report addressed the application of behavioral insights to investor protection.

On 30 September 2019, Committee 8 published the report *Core Competencies Framework on Financial Literacy* to assist members, investor education providers and other stakeholders in their efforts to develop and implement investor education initiatives. The framework provides guidance to users on the content of investor education programs. It seeks to provide investors with core competencies, thereby enabling them to make informed decisions about how to diversify investments, reduce risk or choose suitable investments, among other things.

The second report, *The Application of Behavioural Insights to Retail Investor Protection*, was published in April 2019 and offers guidance to help regulators better understand the behavior of retail investors in making financial investment decisions. The report

describes behavioral biases and how they affect retail financial markets. The examples in the report show how emotions and psychological experiences can influence investment decisions; how a rule of thumb can lead to incorrect beliefs; and how a partial assessment of information can lead to a different decision than a complete assessment.

Other Work

During 2019, IOSCO examined how IOSCO members address investor complaints and apply redress mechanisms. The objective is to provide IOSCO members with a resource of information to help them address these issues in their jurisdictions.

The committee also began a project on crypto assets aimed at enhancing the protection of retail investors by better informing them of the risks and characteristics of crypto assets.

World Investor Week

IOSCO held its third World Investor Week in October 2019. Coordinated by Committee 8, the event served to raise awareness worldwide about the importance of investor education and protection. Securities regulators and other stakeholders from approximately 90 countries from across the globe took part in the event -- each one with numerous activities designed to raise awareness. Activities ranged from workshops and conferences to local and national investor education campaigns, games and contests.

In addition to highlighting the importance of investor education and protection, a key objective of the WIW is to help investors understand and address rapid technological change and the challenges posed by increasingly interconnected financial markets.

The 2019 WIW also sought to promote the basics of smart investing and to ensure that retail investors understand the risks associated with online investing, digital assets and initial coin offerings.

Information-sharing Networks and Cross-Committee Work

A growing body of IOSCO work draws on the expertise of various policy committees, as regulators find it increasingly useful to examine pressing issues from various market perspectives. For IOSCO, this collaborative work provides 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 expertise regarding Fintech, initial coin offerings, sustainability and data analytics through IOSCO networks.

Fintech Network

The IOSCO Board established the Fintech Network in May 2018 to enable IOSCO members to collaborate on Fintech issues, bring together specific Fintech expertise under a single umbrella structure, share information and experiences among members and present substantive issues to the Board. The network, chaired by the UK FCA, has members from more than 90 jurisdictions and a Steering Group (SG) of interested Board members to oversee and direct its work.

Following exploratory work, the network and the SG agreed to focus on four priority themes in 2019: (1) distributed ledger technology and its applications within a securities market context, (2) artificial intelligence and machine learning, (3) regtech and suptech (coding of regulations and machine-readable rulebooks) and (4) the lessons learned by members in encouraging innovation.

The Steering Group created the Stablecoin Working Group (SCWG) in July 2019 to actively consider how IOSCO Principles and Standards could apply to different global stablecoin initiatives. In November 2019, the Board issued a Statement highlighting the commitment of the Fintech Network to continue its assessment of global stablecoin initiatives while facilitating information sharing between securities market regulators on stablecoin proposals.

Sustainable Finance Network

The Board established the Sustainable Finance Network (SFN) in October 2018 to provide a forum where members can exchange experiences and discuss sustainability matters, such as issuer disclosures and their relevance to investor decision making and the extent to which industry-led initiatives have been implemented.

IOSCO's work on sustainable finance 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. In 2019, the SFN reviewed these initiatives to understand how they relate to the role and work of securities regulators within this area.



The network undertook a survey of the initiatives that securities regulators and market participants have planned or undertaken to seize the opportunities and address the challenges created by sustainable finance. The network organized a meeting with stakeholders to discuss these issues in June 2019.

In early 2020, IOSCO published the SFN's report on *Sustainable Finance and the Role of Securities Regulators and IOSCO*, which seeks to help market participants address issues related to sustainability and climate change.

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 and 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 build regulatory capacity in this area, the Support Framework collects materials to assist members in looking beyond the marketing labels of ICOs to focus on the substance of these offerings and determine 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 make presentations 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

Studies undertaken by IOSCO policy committees indicate that some market participants, trading venues, credit rating agencies and market infrastructures may be relying to a significant extent on outsourcing critical services and other tasks to third-party providers, in many cases to reduce costs or improve competitiveness in today's increasingly automated and interconnected markets. As a result, 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 (CRAs) and Committee 7 on Derivatives, to conduct work on outsourcing.

In November 2018, the IOSCO Board approved a mandate for the cross-committee group to examine the risks associated with the use of third-party service providers. As part of this effort, the group agreed to review the 2005 IOSCO Principles on Outsourcing in light of recent trends and market developments.

In 2019, each of the participating committees examined the role of third-party service providers in its area of specialization to evaluate where the existing IOSCO Principles may not adequately address recent developments and to update them where appropriate. The cross-committee approach aims to bring consistency to IOSCO's principles across sectors while ensuring that those principles remain consistent over time.

The Use of Artificial Intelligence and Machine Learning in the Context of Market Intermediaries and Asset Managers

The IOSCO Board identified the use of Artificial Intelligence and Machine Learning (AI/ML) by market intermediaries and asset managers as a key policy priority in 2019. Accordingly, it approved a mandate in April 2019 for Committee 3 on Regulation of Market Intermediaries and Committee 5 on Investment Management to examine best practices relating to the supervision of AI and ML. The mandate calls for the two committees to propose guidance to assist member jurisdictions in creating appropriate regulatory frameworks to supervise intermediaries and asset managers that use AI and ML.

The two committees issued a paper on AI and ML for public consultation in the first half of 2020.

Task Forces

Board Level Task Force on Financial Benchmarks

On 31 July 2019, IOSCO published the public *Statement on Communication and Outreach to Inform Relevant Stakeholders Regarding Benchmarks Transition*. The document, prepared by the Task Force on Financial Benchmarks, sets out matters for market participants to consider if they have exposure to LIBOR, particularly the widely used USD LIBOR, given its expected cessation.

The statement was part of a project to inform stakeholders of the primary transition steps planned in the benchmark reform efforts. By issuing the statement, IOSCO sought to raise awareness among end-users, the financial services industry and the media of the likely cessation of LIBOR and the need to transition from the USD LIBOR to the new preferred Rates (RFRs).

In addition to the statement, IOSCO organized a workshop at the IOSCO Annual Meeting in June and a series of training and education events on benchmarks transition, as part of its communication and outreach program for stakeholders.

Benchmarks play a key role in the financial system's core functions of pricing, allocating capital and risk. They impact enormous volumes of credit products (e.g., loans, mortgages, structured products, short-term money market instruments and fixed income products) and derivatives. Additionally, they are used in trade finance, valuation, accounting and taxation.

IOSCO has been at the center of global efforts to address the issues revealed by a series of benchmark manipulation scandals in 2012. In July 2013, IOSCO published the *Principles for Financial Benchmarks*, which 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 in 2013, IOSCO has conducted several reviews of their implementation and issued 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

The Board agreed in 2016 to set up a Board-level Sub-Group to develop, with the support of Committee 4 on Enforcement and the Exchange of Information, an IOSCO-wide strategy for addressing data protection issues arising from the European Data Privacy Regime (GDPR) that went into effect in May 2018.

Accordingly, the IOSCO Subgroup and the European Securities and Markets Authority (ESMA) began negotiating with the European Data Protection Board (EDPB) on an Administrative Arrangement (AA) for the transfer of personal data between European Economic Area (EEA) financial supervisory authorities and non-EEA supervisory authorities under the new data regime. At the same time, the EU members of IOSCO made a commitment to continue to share information containing personal data with their non-EU counterparts under the Public Interest Derogation of the GDPR while the AA was being negotiated.

In February 2019, the EDPB agreed that the AA ensured appropriate safeguards for the transfer of personal data pursuant to the arrangement. The decision enabled the continued exchange of enforcement and supervisory information between EU and non-EU securities regulators under the IOSCO Multilateral Memorandum of Understanding, a key IOSCO enforcement tool.

Board level Cyber Task Force

In June 2019, the Cyber Task Force published a final report that provides an overview of three internationally recognized cyber standards and frameworks used by IOSCO members. It also identifies potential gaps in the application of these standards and seeks to promote sound cyber practices across the IOSCO membership.

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.

The report *Cyber Task Force* examines how IOSCO member jurisdictions apply three internationally recognized cyber standards dubbed the Core Standards in the report. These standards consist of the CPMI-IOSCO Guidance on Cyber Resilience for Financial Market Infrastructures; the National Institute of Standards and Technology Framework for improving Critical Infrastructure Cyber-security; and the International Organization for Standardization 27000 series standards.

While the report does not propose new cyber standards or guidance, by highlighting the application of the Core Standards by some IOSCO members, the task force hopes more members will review their own cyber standards against the practices of the Core Standards and, where relevant, use the Core Standards as a model to further enhance their cyber regimes.

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

In December 2018, after identifying market fragmentation as an important priority for IOSCO, the IOSCO Board approved a mandate for a Follow-Up Group (FUG) to continue the work of the 2015 Cross-Border Regulation Task Force. The FUG conducted a survey of Board members to identify the potential causes of market fragmentation and address other new developments affecting cross-border regulation since the publication of the 2015 *Report on Cross-Border Regulation* (including within the OTC derivatives market).

The FUG report *Market Fragmentation & Cross-border Regulation* was published in June 2019. The report examines instances of regulatory-driven fragmentation in wholesale securities and derivatives markets and considers what actions regulators can take to minimize its adverse effects on global securities markets. In October 2019, the Board approved follow up work streams for the FUG aimed at fostering mutual understanding, developing a process for deference and deepening supervisory cooperation.

In June 2020, the Follow-up Group published the report on *Good Practices on Processes for Deference* to assist re-regulatory authorities in mitigating the risk of unintended, regulatory-driven market fragmentation and to strengthen international cooperation.



U-IOSCO

wfe WORLD FEDERATION
OF EXCHANGES

FINANCIAL LITERACY

INVESTOR WEEK

