# Annual Report 2019

INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS

OICU-IOSCO

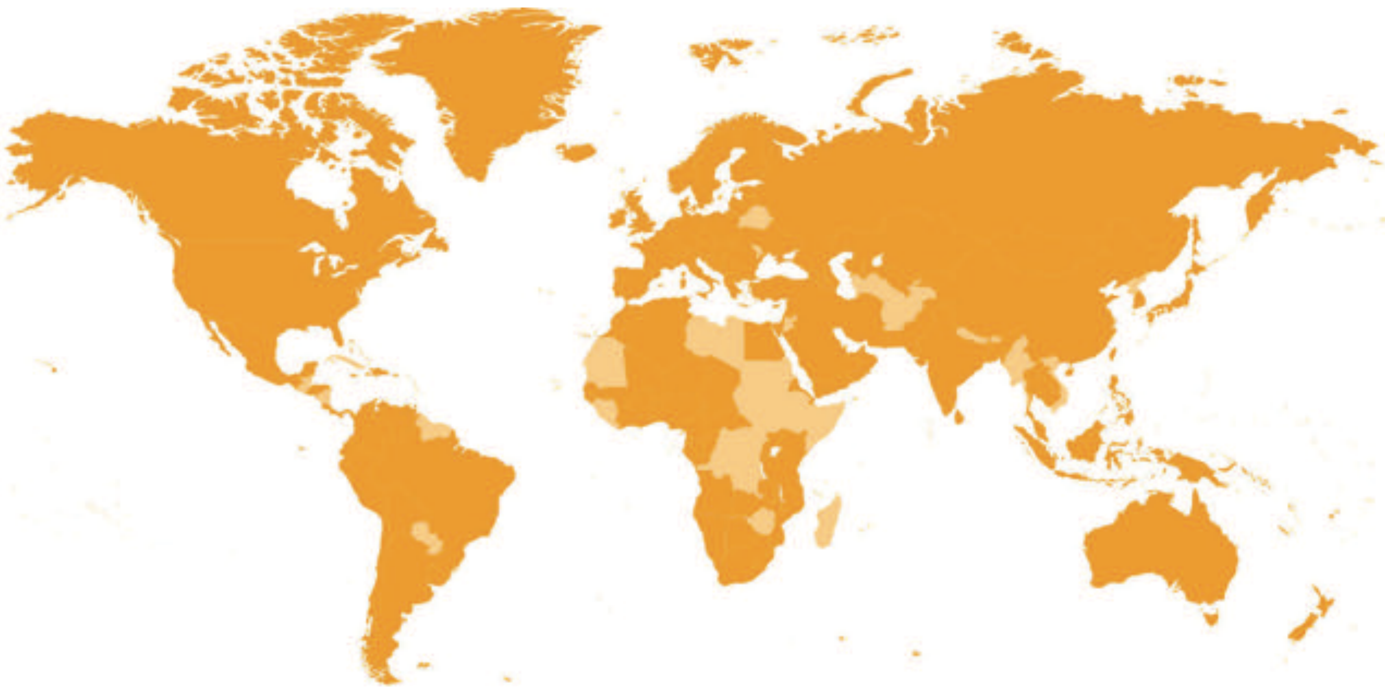
# Annual Report 2019

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.

# IOSCO MEMBERSHIP



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.

# TABLE OF CONTENTS

# 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

**It is a privilege to continue to serve as IOSCO Board Chair in particular during this period of exceptional stress. I would like to thank IOSCO members and the Secretariat for their support.**

## COVID-19 crisis

Despite the challenging work arrangements members face due to the pandemic, we have made good progress on all major work streams over the past year, as summarized in the Secretary General's report on pages 18 to 21.

The IOSCO Board held regular conference calls to discuss issues arising out of the COVID-19 crisis. In view of the uncertainty arising from the COVID-19 outbreak, the Board issued a statement on IOSCO's resolute stance to keep financial markets open and functional to enable businesses to access funding and manage risk in a period of unprecedented volatility across asset classes. It also issued statements on encouraging issuers to make fair disclosure of COVID-19 related impacts and on the application of accounting standards, reminding market participants that fair and timely disclosures remain the key pillar of maintaining fair, efficient and transparent markets.

In early April, the Board took the decision to delay a number of IOSCO workstreams to redirect its responses to focus on challenges members faced due to the COVID-19 pandemic.

The Secretariat has established a repository setting out the evolving measures taken in response to COVID-19 and has made this available to the entire membership.

## Board Chair objectives

When running for re-election as Board Chair in 2018, my objective was to continue to enhance the relevance of IOSCO's work to its wider membership, to promote better interaction between members from emerging and developed markets and to improve the relationship between IOSCO and the Financial Stability Board (FSB), based on a better mutual understanding of our different perspectives on market risks and investor protection. I also recognized that the post-crisis reform work of the FSB and CPMI-IOSCO would be of continuing importance.

With regard to organizational matters, I wanted to ensure that Board meetings would prioritize discussion of substantive market and policy issues over internal process matters. I also requested a review on how the IOSCO Secretariat could optimally support the Board, the policy committees as well as Board-level working groups in a consistent and transparent fashion.

I believe that IOSCO has made significant progress across all of these objectives. From my perspective, highlights of this period include the following:

## Financial Stability Board

A major, positive reset of IOSCO's relationship with the FSB, one of our most important counterpart organizations, has become even more significant

with the onset of the COVID-19 crisis. This progress has been achieved across many fronts, ranging from frequent personal interactions with the FSB leadership to the establishment earlier this year of the IOSCO Financial Stability Engagement Group (FSEG), led by Heath Tarbert of the US CFTC and Robert Ophèle of the AMF France. The outcome is that IOSCO is now viewed as a vital contributor to the work of the FSB. Specifically, we are acknowledged by FSB members as an organization that contributes key information, perspectives and policy insights across the non-bank financial stability concerns that have influenced Central Bank thinking over recent years. This has been especially evident during the COVID-19 crisis where the FSEG plays an increasingly crucial role.

## IOSCO Board and other organizational matters

IOSCO made continued progress on ensuring that Board meetings concentrate on matters of substance and topics that are of direct relevance to the front-line work of market regulators. This move was initially driven by the structural changes introduced shortly after I became Board Chair in 2016. These changes were designed to ensure that the Board shoulders a direct responsibility for deciding key IOSCO priorities to frame the work of our policy committees. This prioritization process was later folded into an annual exercise starting with a tightly focused Risk Outlook led by the Committee on Emerging Risks (CER) (drawing on detailed input from all policy committees, regional committees and the Growth and Emerging Markets Committee (GEMC)) and ending with a public work plan, the first of which was published in early 2020.

## Annual Meeting

The Annual Meeting was revamped to eliminate redundant reporting and updates, shorten the time commitment for members and, most importantly, to connect IOSCO leadership with the broader membership. I was particularly pleased with the way in which the Presidents Committee, which hitherto had been formulaic, stilted and devoid of any real content, was transformed in 2019 in Sydney into an interactive town hall format. This enabled members, many of whom are members of the GEMC, to engage directly with Board members and Policy Committee Chairs on key aspects of IOSCO projects.

Due to the travel restrictions and lockdowns as a result of COVID-19, the Board has reluctantly decided to postpone the Annual Meeting until early November and a review will be carried out in August on the feasibility of a physical meeting. Whichever format the Annual Meeting takes, the Presidents Committee will continue to adopt an interactive approach.

## IOSCO Governance and transparency

Recommendations made by the Board-level working group to clarify the role of the Secretary General succeeded at enhancing IOSCO governance and transparency. An annual Secretariat work plan was put in place, for the first time, to explain to Board members how Secretariat resources and expertise would be allocated across projects.

## Serving the IOSCO membership

There are various areas where IOSCO has provided value to its members, not least of which is its capacity building efforts. These initiatives include the Seminar Training Program, the Global Certificate Program and the training offered by the IOSCO Asia Pacific Hub, World Investor Week led by Committee 8 on Retail Investors, various regional committee initiatives and important new Board-level policy work such as that conducted by the Sustainability Task Force and the Fintech Network.

## Moving forward

IOSCO needs to continue to identify other crisis responses that are not part of the FSB agenda but that are of specific relevance to securities regulators and are suited to an international approach. Examples of this can be seen in the work of Committee 1 on Issuer Accounting, Audit and Disclosure on Covid-19 financial disclosures, its recent Statement on IFRS 9 and the Board's decision to delay the final phase-in of initial margin requirements for non-centrally cleared OTC derivatives.

It is important that at the right time we also carry out other significant policy work unrelated to the COVID-19 crisis, ranging from asset management (where the leverage work looms large), to Stablecoins and collaborative work with the Committee on Payments and Market Infrastructures (CPMI) via the CPMI-IOSCO Steering Group.

Last but not least, I am extremely proud of the effort made by Board members, Committee Chairs and members, the Secretariat and my team at the SFC to take IOSCO's work, impact and credibility to a level not achieved in the past.

# 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

**I am pleased to present this year's Growth and Emerging Markets Committee (GEMC) Report. In 2019, the GEMC continued to focus on sustainable finance-related issues, crypto assets and developments in financial technology. GEMC work enabled members from growth and emerging market jurisdictions to provide the IOSCO Board with unique insights into these and other important issues.**

## Sustainable Finance

Today, the world is more conscious than ever of the environmental risks and economic impact of climate change. It is not only civil society that is aware of all that is at stake; the financial services sector also considers climate change and sustainable development goals to be important factors that influence investment strategy. Given the magnitude of the challenges ahead, the GEMC has made sustainable finance one of its overarching priorities.

In recent years, market participants, regulators and policymakers have increasingly centered their attention on sustainable finance in its many forms. This issue is particularly relevant for growth and emerging markets seeking to develop capital markets in their jurisdictions.

Accordingly, and in line with the IOSCO Focus Areas identified by the IOSCO Board (May 2017), the GEMC agreed to review the key issues and challenges involved in developing sustainable finance in capital markets and the role of securities regulators in this effort, including the reporting issues related to environmental, social and governance factors (ESG). The GEMC organized a *Dialogue on Sustainable Finance in Capital Markets* in London in July 2018. Based on the outcomes of this dialogue and the information collected through a survey questionnaire, the GEMC Working Group on Sustainability in Emerging Markets (WGS) prepared a draft consultation paper, published in February 2019.

The outcome of this work was the publication in June 2019 of a final report on *Sustainable finance in emerging markets and the role of securities regulators*, which sets forth ten recommendations that member jurisdictions should consider when issuing regulations or guidance regarding sustainable instruments and additional disclosure requirements of ESG-specific risks. The recommendations fall into the following categories:

- Integration by issuers and regulated entities of ESG-specific issues in their overall risk assessment and governance (Recommendation 1);
- Integration by the institutional investors of ESG-specific issues into their investment analysis, strategies and overall governance (Recommendation 2);
- ESG-specific disclosures, reporting and data quality (Recommendation 3);
- Definition and taxonomy of sustainable instruments (Recommendation 4);
- Specific requirements regarding sustainable instruments (Recommendations 5 to 9); and
- Building capacity and expertise for ESG issues (Recommendation 10).

The report explores the trends and challenges that shape the development of sustainable finance in emerging capital markets. It also provides an overview of the initiatives that regulators, stock exchanges, policymakers and others key stakeholders in emerging markets have undertaken in this area. The report identifies the prerequisites for creating an ecosystem that facilitates sustainable finance, such as an appropriate regulatory framework and fit-for-purpose market infrastructure, reporting and disclosure requirements, governance and investor protection guidelines and mechanisms to address needs and requirements of institutional investors.

The GEMC also believes that appropriate capacity building will better prepare members for addressing the challenges posed by the rapid growth in sustainable finance. The committee envisages launching an outreach program on the Sustainable Finance Report and its 10 recommendations.

The GEMC work complements IOSCO's efforts on sustainability, which include work by the IOSCO Sustainable Finance Network and the *IOSCO Board's Statement on Disclosure of ESG Matters by Issuers* that was issued on 18 January 2019.

### Fintech in Emerging Markets

The GEMC has identified Fintech as a common priority for emerging markets. Accordingly, and following a strategic discussion by the GEM Steering Committee in February 2019, the GEMC decided to undertake work that explores the regulatory and supervisory approaches to innovation facilitators, including innovation hubs, regulatory sandboxes and accelerators, in GEM jurisdictions. This new project, approved at the GEMC meeting in September 2019, also aims to examine the issues and challenges for emerging markets of implementing and monitoring these facilitators.

Among other things, it envisages analyzing the role of the public and private sectors in enabling such facilitators. The key deliverable will be a public report with a comprehensive analysis of the initiatives taken by GEM jurisdictions and a list of recommendations and guidance on how securities regulators can develop effective innovation facilitators and approach them from a regulatory and supervisory perspective.

### Other Work

The GEMC was invited to contribute to the work program of the International Financial Architecture Working Group (IFA WG) for 2020, which was endorsed by the G20 Finance and Central Bank Deputies in December 2019. The GEMC will contribute to the first objective of the IFA WG work program, which is to develop domestic capital markets to support growth and enhance financial resilience.

The development of strong domestic capital markets depends upon sound macroeconomic policies, strong legal and regulatory frameworks and robust financial infrastructures. The GEMC is conducting an analysis, based on previous GEMC work, to produce a report that will present the main challenges and opportunities in the development of emerging capital markets. The report will aim to set out high-level recommendations regarding capital market development for emerging markets.

The report will be completed in September 2020.

### GEMC Annual Meeting and Conference

The Bank of Russia hosted the GEMC Annual Meeting and Conference in Saint Petersburg on 19 and 20 September 2019. The Public Conference agenda focused on the three core IOSCO objectives, the Board priorities and the current financial environment. The Conference was composed of four sessions:

> *Market fragmentation and cross border activity:* The panelists discussed the challenges and main tools for enhancing cross border cooperation.
> *Building sustainable capital markets*: The panelists discussed the issues and challenges faced in creating an enabling environment for sustainable financing and the role of securities regulators in this area.
> *Fintech innovation*: The panelists shared their insights regarding new challenges and opportunities and ways to foster a regulatory environment conducive to both technological innovation and ensuring investor protection and financial stability.
> *Investor education in a digital era:* The panelists shared their views on current initiatives in investor education and the use by regulators of multi-media to reach investors.

This conference provided participants with insightful and fruitful panel discussions.

During GEMC meetings, members shared information on recent developments and emerging risks and trends identified in their capital markets. Most of the emerging risks highlighted by members were consistent with those in the IOSCO Risk Outlook. Members also identified additional risks regarding technology (e.g., blockchain and distributed ledger technology), liquidity issues and greenwashing that the GEMC could study in the future.

Members gave regulatory updates and shared experiences concerning developments in sustainable finance and capacity building activities. Participants also explored initiatives to provide greater support to emerging market members in areas such as cyber-security, crisis management and financial stability risk.

### Workshop on Building Financial Resiliency for a Changing Environment

The GEMC organized a regulatory workshop *(Building financial resiliency for a changing environment-empowering leadership)* centered on investor education at its Annual Meeting in Saint Petersburg, Russia, in September 2019. This workshop was conducted in collaboration with the International Forum for Investor Education (IFIE). Participants shared their views on the key issues that impact investors at both the micro and macro systemic level and other critical emerging issues.

### Conclusion

I wish to highlight that during my tenure as Chair of the GEMC, I am committed to serving GEM members and contributing to IOSCO's work to develop sound and sustainable capital markets worldwide.

In 2019, little would have been accomplished in this area had I not benefitted from the unwavering support and collaboration of GEM members, my two Vice Chairs and the IOSCO General Secretariat. I wish to express my appreciation to them for their dedication and hard work in accomplishing all of the GEMC initiatives. I am particularly grateful to Raluca Tircoci-Craciun of the General Secretariat for coordinating the IOSCO GEMC work throughout the year. Her dedication and diligence proved to be invaluable to our committee work.

Given the evolving financial climate, GEMC members will undoubtedly encounter more challenges ahead. I am sure that with a concerted effort, we will overcome them. On this note, I look forward to GEM members participating actively and enthusiastically in the GEMC's workplan.



Bank of Russia
IOSCO GEMC&ERC
Bank of Russia


GEMC&ERC
EMC PUBLIC CONFERENCE
tersburg, 19 September 2019
Bank of
IOSCO GEMC&ERC
Bank of


EETING AND CONFERENCE & ERC MEETING
MBER 2019 · ASTORIA HOTEL, ST.PETERSBURG, RUSSIA

## 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

**The AMCC´s objectives are aligned with IOSCO´s objectives to enhance to enhance investor protection, maintain fair, efficient and transparent markets and address systemic risk. As detailed further below, 2019 saw an increase in the AMCC's contributions to IOSCO's Committee on Emerging Risks, policy committees and workstreams in furtherance of IOSCO's priorities and objectives.**

### Value of AMCC's breadth, depth and diversity

IOSCO's 2019 Risk Outlook was redesigned to be more outcomes-focused and to strengthen the interaction between the research function, the Board and its committees, including the Affiliate Members Consultative Committee (AMCC). For the first time, IOSCO supplemented its top-down approach for the 2019 Risk Outlook with a bottom-up view of key risks by drawing extensively on the expertise of policy committees, the Growth and Emerging Markets Committee and the AMCC. Given that the Risk Outlook Report establishes the foundation for IOSCO's work program, a top priority of the AMCC is to contribute in a meaningful way to the Risk Outlook development process.

The breadth, depth and diversity of the AMCC's over 65 affiliate members provide a wide-angle lens that captures a range of potential risks that could impact the financial markets. AMCC members represent self-regulatory organizations (SROs), exchanges, market infrastructures, investor protection and compensation funds, associations of regulated entities as well as other bodies with an interest in securities and derivatives regulation. The AMCC's valuable front-line regulatory expertise and market insights are critical inputs to the development of the annual Risk Outlook, allowing the AMCC to make significant contributions to IOSCO's priorities and ongoing policy and standard-setting work.

### AMCC Receives Important Assignment Regarding Market Fragmentation

The AMCC made a significant contribution this year that is detailed in IOSCO's June 2019 report titled *Market Fragmentation and Cross-border Regulations*. This report focuses on market fragmentation that arises as an unintended and harmful consequence of financial regulation. The report acknowledges that IOSCO is unique among international standard-setting bodies in having a committee made up largely of market participants. The report states further that IOSCO's AMCC should play an increasing and more specific role in identifying instances where market fragmentation occurs. In addition to providing IOSCO with input from market participants, the AMCC was asked to prepare an evidence-based report for the IOSCO Board on an annual basis to ensure that the issue of harmful fragmentation remains a regular item on the IOSCO agenda. This annual report should describe where AMCC members have identified cases of harmful fragmentation that have a cross-border element.

### Significant Contributions

**Investor Protection:** In support of this important objective, approximately half of the AMCC membership participated in the third annual IOSCO World Investor Week (WIW) to promote investor education and protection. Events ranged from webinars, panel


GABRIEL
PORTO

discussions, social media campaigns, participating in the opening ceremonies and ring the bell events. Specifically, the World Federation of Exchanges, an AMCC Member, partnered with IOSCO to launch the inaugural *Ring the Bell for Financial Literacy* as part of the WIW 2019 event. Close to forty exchanges and CCPs, 15 of which were AMCC members, participated in this important event. This initiative is an excellent example of exchanges and market infrastructures working together with regulators to promote financial literacy.

**Emerging Risks:** AMCC members increased their contributions this year to the development of IOSCO's 2020 Annual Risk Outlook. AMCC members provided input on emerging regulatory issues, risks, trends and vulnerabilities. AMCC members also submitted issue notes covering topics including benchmarks, CCP risk management, best practices, recovery and resolution, initial margin for non-centrally cleared swaps phase V, market fragmentation, cyber-resilience and repo market risks and vulnerabilities.

**Sustainable Finance:** Understanding how sustainability issues relate to our financial markets is an important topic for many AMCC members and, therefore, a focus of AMCC activities. In addition to including this topic on the AMCC's meeting agenda, AMCC Vice Chair Nandini Sukumar delivered remarks at IOSCO's Sustainable Finance Network's (SFN) stakeholders meeting, and many AMCC members provided their industry insights to SFN.


**Capacity Building:** To contribute to well-regulated markets, the AMCC provides an annual regulatory training program to share AMCC members' expertise with all IOSCO members. In 2019, the 12th edition of the two-day Regulatory Staff Training was held at IOSCO's headquarters in Madrid. More than 70 participants and 29 speakers from jurisdictions worldwide attended the program. The seminar featured panels about retail investor protection, operational resilience and cyber-security, emerging markets, derivatives basics and the related regulatory framework, enforcement, Fintech, financial benchmarks and ethics. 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 timely industry developments.

## Looking Ahead

Moving forward, the AMCC will continue to fulfill its important consultative role within IOSCO and contribute to IOSCO's objectives of enhancing investor protection, maintaining fair, efficient and transparent markets and addressing systemic risk.

## 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 would also like to thank the IOSCO Secretary General and the General Secretariat staff and the AMCC Vice Chair for their expertise, support and coordination.

## Report from the IOSCO Secretary General

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

**Dear Colleagues,**

**While 2019 was an important year for IOSCO on all aspects of our work, including on our policy initiatives, capacity building (where we carried out our most robust effort ever), implementation monitoring and identification of risks, I wanted to focus my letter this year on a few key items that demonstrate how IOSCO has taken the lead on several important issues for global capital markets.**

First, I am proud to say that 2019 marked the first time that IOSCO has produced and distributed an annual work program to the membership and the larger stakeholder community. The program was based on the prioritization by the Board using the Risk Outlook prepared by our Committee on Emerging Risks. This initiative was aimed at making IOSCO more transparent about its priorities and deliverables and also more accountable to its members and other stakeholders. The annual work program will help IOSCO maintain its focus on the core issues affecting the membership.

Second, during the year, IOSCO made important strides in addressing matters relating to sustainable finance. In June, our Growth and Emerging Markets Committee issued a report on sustainable finance in emerging markets and the role of securities regulators, which provides ten recommendations for emerging market member jurisdictions to consider when issuing regulations or guidance regarding sustainable financial instruments. At the same time, IOSCO's Sustainable Finance Network continued to examine key issues that involve multiple and diverse sustainability frameworks and standards, including sustainability-related disclosure, a lack of common definitions of sustainable activities, and greenwashing and other challenges to investor protection. Work will continue in 2020 on these important points.

Third, together with ESMA -- the European Securities and Markets Authority – IOSCO secured an opinion from the European Data Protection Board (EDPB) on an administrative arrangement for the transfer of personal data between European Economic Area (EEA) Financial Supervisory Authorities and non-EEA Financial Supervisory Authorities in order to comply with the European General Data Protection Regulation (GDPR). The EDPB Opinion was the first of its kind under the GDPR and will enable the continued exchange of enforcement and supervisory information between securities regulators, including under the IOSCO Multilateral MoU and Enhanced MMoU, to promote orderly markets and protect investors, while providing the protection of personal data.

Fourth, we took a leadership role in examining various stablecoin initiatives with a potential global reach and how securities market regulation may apply to these initiatives. While the Board acknowledged that stablecoins can potentially offer benefits to market participants, consumers and investors, it is also keenly aware of potential risks in a number of areas, including consumer protection, market


IOSCO 2019
Sydney
44th IOSCO Annual Meeting


integrity, transparency, conflicts of interest and financial crime, as well as potential systemic risks. As a result, in 2019, IOSCO produced an assessment of how IOSCO Principles and Standards could apply to global stablecoin initiatives. The detailed assessment concluded that a case-by-case approach is needed to establish which IOSCO Principles and Standards, and national regulatory regimes, would apply. A detailed understanding of how each proposed stablecoin is expected to operate is therefore needed, including the rights and obligations it confers on participants and the continuing obligations of the sponsor. This was the first such analysis of its kind.

Fifth, IOSCO took some important steps on the issue of harmful and unintended market fragmentation. Not only did the Board identify this issue as a key matter in its own right, but we also contributed to the discussion as part of the Japanese G20 Presidency. Thus, in June 2019, IOSCO published a report that examines instances of regulatory-driven fragmentation in wholesale securities and derivatives markets and considered what actions regulators can take to minimize its adverse effects. It provides examples of market fragmentation that IOSCO members consider to be significant and potentially harmful to the oversight and supervision of financial markets. The report proposes potential measures that IOSCO and relevant national authorities could explore to mitigate the risk, and potential adverse effects, of fragmentation on global securities markets. These measures include ways to foster further mutual understanding of one another's legislative frameworks, deepen existing regulatory and supervisory cooperation and consider whether there are any good practices that can be identified regarding deference tools.

Finally, late in the year, IOSCO issued some important recommendations on measuring leverage in investment funds. With these recommendations, IOSCO developed the first comprehensive approach to monitoring leverage across all types of investment funds globally. And, we provided a framework to help regulators assess leverage-related risks that can undermine the efficient functioning of markets. The framework we proposed comprises a two-step process designed to achieve 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 different jurisdictions.

So, as you can see, 2019 was an important year for IOSCO. We have firmly established the organization as a thought-leader on key issues and, in 2020, we will carry out further work on several of the matters I mentioned above. I look forward to updating you in my letter in next year's annual report.


ALP EROGLU
(IOSCO)
GUY DEBELLE
(RBA)
CLARE DAWSON
(LMA)
SCOTT O'MALIA
(ISDA)

# 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.


IOSCO
2019
Sydney
JAPAN


IOSCO
2019
Sydney
IOSCO
2019
Sydney
TUNISIA


## 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


2019 · IOSCO GEMC & ERC · ST. PETERSBURG

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 whole-sale 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-gulatory authorities in mitigating the risk of unintended, regulatory-driven mar-ket fragmentation and to strengthen international cooperation.


WORLD FEDERATION
OF EXCHANGES
WEEK

# Inter-Agency Work

## IOSCO work with the Bank for International Settlements

### BCBS-IOSCO Working Group on Margin 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, in September 2013, the BCBS and IOSCO released 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 are 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 - the Working Group on Margin Requirements (WGMR) -- to evaluate the margin requirements and determine whether elements of the margin standards should be reconsidered. Recognizing the complexity and impediments to 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 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 2019. On the basis of the WGMR monitoring, in March 2019, IOSCO and the BCBS provided guidance to support the timely and smooth implementation of the framework and to clarify its requirements. In addition, in July 2019, the BCBS and IOSCO revised the margin requirements framework to extend by one year the final implementation phases of the margin requirements.

### IOSCO work with 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 2019, CPMI-IOSCO published a report on *Responsibility E of the Principles for Financial Markets Infrastructures (PFMI)*, which specifies that central banks, market regulators and other relevant authorities should cooperate with each other, both domestically and internationally, to ensure the safety and efficiency of FMIs. The report outlines the ways in which financial authorities cooperate to accomplish these important goals. It also shares the lessons learned from this cooperation.

In June 2019, CPMI-IOSCO published a consultative paper on CCP default management auctions. A CCP's ability to effectively manage the default of a member is essential to its resilience and can help reduce systemic risk. A default management auction is one of the tools that a CCP may use to transfer a defaulting participant's positions to a non-defaulting participant, thereby restoring the CCP to a matched book.

In addition, the FSB consulted with CPMI-IOSCO on a consultative document on guidance on financial resources to support CCP resolution and the treatment of CCP equity in resolution.

## Other CPMI-IOSCO Work

### *Data harmonization*

In 2014, CPMI-IOSCO created the Harmonisation Working Group of Key Over-the-counter Derivatives (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). The harmonization of key OTCD data elements seeks to facilitate a more consistent presentation of those data elements across jurisdictions. In addition, it should help authorities aggregate OTCD data received from trade repositories. To assist in this endeavor, CPMI-IOSCO published 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.

In October 2019, CPMI-IOSCO published its recommendations for *Governance Arrangements for critical OTC derivatives data elements (other than UTI and UPI)* in close coordination with the FSB, which had developed governance arrangements for the UPI (published in October 2019) and for the UTI (published in December 2017).

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

The CPMI-IOSCO JWGDI´s objective is to identify and assess the implications of blockchain, distributed ledgers and related technologies for clearing and settlement arrangements. The work focuses primarily on the technical and infrastructure aspects (such as security, scalability and efficiency) of emerging business models, products and services based on these technologies. To fulfill its mandate, in 2019, the JWGDI monitored use cases related to DLT, clearing and settlement and stablecoins.

### *Implementation Monitoring of the Principles for Financial Market Infrastructure (PFMI)*

During 2019, 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 essential part of the G20 mandate stipulating that all standardized OTC derivatives should be centrally cleared and all OTC derivative contracts reported to trade repositories.

The IMSG implementation monitoring program includes 28 participating jurisdictions from a diverse group of regions and from both developed and emerging market economies.[1] The PFMI implementation monitoring work is conducted at three levels:

- Level 1;
- Level 2; and
- Level 3.

*Level 1 assessments* are based on self-assessments by individual jurisdictions on their progress in adopting the legislation, regulations and other policies (together referred to as "implementation measures") that will enable them to implement the PFMI. Following the initial Level 1 assessment report, published in August 2013, the 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).

Following the release of the Fifth update in July 2018, the IMSG discontinued publication of Level 1 reports and moved to a Level 1 online tracker, now available on the IOSCO and the CPMI websites. According to the information provided by the participating jurisdictions as of January 2019, Korea and South Africa had adopted measures that would enable them to implement the PFMI for all FMI types. By January 2020, Indonesia and

[1] Argentina, Australia, Belgium, Brazil, Canada, Chile, China, the European Union, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Mexico, the Netherlands, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States.

Saudi Arabia had also completed the process of adopting measures to facilitate implementation of the Principles. Thus, 25 of the 28 jurisdictions participating in the implementation monitoring program adopted measures during 2019 that would enable them to implement the PFMI for all FMI types.

*Level 2 assessments* 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. These Level 2 assessments allow the IMSG to identify gaps or shortcomings in the implementation measures against the respective Principles in the PFMI.

The CPMI-IOSCO published the Level 2 report for Switzerland (covering all FMI types) in January 2019 and the Level 2 report for the United States (covering PSs and CSDs/SSSs) in May 2019.

In July 2018, the IMSG began the Level 2 assessment of Brazil, covering all FMI types. This assessment continued in 2019. In May 2019, the IMSG also commenced a Level 2 assessment of Turkey, covering all FMI types and, in October 2019, the IMSG launched the Level 2 assessment of the EU, covering PSs and CSDs/SSSs. The IMSG will assess other jurisdictions at Level 2 over time.

*Level 3 assessments* are peer reviews to examine the consistency in the outcomes arising from the implementation of the Principles, noting any variation in outcomes across FMIs in various jurisdictions. They are thematic in nature and the output from the Level 3 assessments are narrative-based reports.

In June 2019, the IMSG initiated a Level 3 assessment on Business Continuity Planning. The focus of the assessment is on three of the seven key considerations

for Principle 17 on operational risk management. Thirty-eight FMIs (covering all FMI types) from 29 jurisdictions are participating in this L3 assessment (one jurisdiction volunteered to participate in this assessment in addition to the group of 28 jurisdictions that participate in the CPMI-IOSCO monitoring program).

***Other Key Points***

The IMSG produced a Level 2 Handbook in September 2019, which is designed to facilitate a consistent approach to conducting Level 2 assessments in a way that is sufficiently general to accommodate differences in institutional factors and implementation measures across jurisdictions. It is also intended to be flexible in incorporating lessons learned and evolving practices from past and future jurisdictional assessments, which may result in future revisions or elaborations to the handbook.

The IMSG also produced a Level 2 database (available on the CPMI and IOSCO websites since May 2019). It is a repository of all assessments completed to date and contains relevant implementation measures, ratings, gaps and recommendations and complements the assessment reports. This database will be updated as new Level 2 assessments are completed.

Finally, since January 2019, the IOSCO website has a dedicated CPMI-IOSCO page[2] with updated information on the PFMI implementation monitoring work.

[2] The site includes the PFMI, the PFMI Disclosure Framework and Assessment Methodology, assessment reports (Level 1, Level 2 and Level 3), the Level 1 online tracker and the L2 database.

***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 was issued 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.

Recently, the focus of the WGCR has shifted from policy development to promoting progress (e.g., by engaging with industry to advance the cyber resilience of FMIs), coordinating with other relevant international cyber groups or standard-setting bodies and collaborating with the IMSG to monitor the implementation by FMIs of the PFMI regarding cyber resilience.

In 2019, the WGCR interacted with the IMSG on the assessment of business continuity plans at FMIs and will do the same with other cyber-related matters in 2020 and 2021.

## IOSCO Work with the Financial Stability Board

The Financial Stability Board (FSB) is an international body that monitors and makes recommendations about the global financial system. The FSB's prime objective is to promote international financial stability, particularly by coordinating efforts of national financial authorities and international standard-setting bodies.

To improve its engagement with the FSB and enhance its financial stability work, in 2019, IOSCO established a Board-level Financial Stability Engagement Group (FSEG). This group has improved the coordination with the FSB, enabling IOSCO to engage more proactively on financial stability issues from a capital markets perspective. Moreover, its formation proved particularly timely given that the subsequent COVID-19 pandemic has given rise to financial stability risks.

Also, during the year, the FSB formed a Steering Committee on Non-bank Financial Intermediation (SCN) to provide strategic direction on NBFI-related initiatives and ensure more effective coordination with standard-setting bodies such as IOSCO. The group brings together market regulators, macroprudential authorities and international organizations. IOSCO encouraged the development of this group, which has helped cement senior level collaboration between IOSCO and the FSB.

The FSB's governance comprises a Plenary and a Steering committee as the decision-making bodies under which there are three standing committees:

- The Standing Committee on Assessment of Vulnerabilities (SCAV);
- The Standing Committee on Supervisory and Regulatory Cooperation (SRC);
- The Standing Committee on Standards Implementation (SCSI).

IOSCO is an active member of all these committees and is represented in the FSB discussions by the IOSCO Chair, Vice Chair, Secretary General and Deputy Secretary General. Asset management issues, in particular open-ended funds' liquidity mismatch, as well as issues around credit rating agencies and margin have been significant areas of engagement for IOSCO in the SCAV and SRC. IOSCO has also contributed to the FSB's work on vulnerabilities in leveraged loan and CLO markets, third-party dependencies, artificial intelligence and machine learning, too-big-to-fail evaluation, external audit and accounting for financial instruments, FSB Procedural Guidelines and the effects of reforms on small and medium-sized enterprise (SME) financing. In the SCSI, IOSCO has contributed to the work on lessons learned on evaluations, the implementation of the FSB Policy Framework on NBFI, the launch of the MMFs evaluation and the non-bank financial intermediation (NBFI) peer review and the G20 annual report on the implementation and effects of G20 financial regulatory reforms.

Some of the more important FSB working groups that IOSCO has participated in include:

- Market Fragmentation: IOSCO is a member of the FSB working group on Market Fragmentation. IOSCO and the FSB each delivered a report on market fragmentation to G20 Finance Ministers and Central Bank Governors ahead of their meetings in Fukuoka in June 2019. IOSCO continues to coordinate with the FSB to strengthen international cooperation among authorities and address the adverse effects on the financial system of market fragmentation and other developments in non-bank financial intermediation.

- FSB Official Sector Steering Group (OSSG). IOSCO is an active member the OSSG, which is working to monitor and support progress on implementing interest rate benchmark reforms and facilitate the transition away from LIBOR (and other IBORs where appropriate). The FSB coordinates with IOSCO's Board Level Task Force on Financial Benchmarks to address barriers to transition and, where appropriate, to take action to remove them. In July 2019, IOSCO issued a Statement on Benchmarks Transition.

- Regulatory Issues of Stablecoins (RIS). IOSCO is an active member of the FSB RIS working group. While the FSB worked on a consultation report on Regulatory Issues of Stablecoins , the IOSCO Fintech Network drafted the Global Stablecoin Initiatives Final Report, which was published in March 2020.

- Cyber Incident Response and Recovery (CIRR): IOSCO is an active member of the FSB CIRR working group, established to develop a toolkit of effective practices to assist financial institutions before, during and after a cyber incident. The final toolkit of effective practices will be submitted to the G20 Finance Ministers and Central Bank Governors meeting in October 2020.

- Working Group on UTI and UPI Governance (GUUG): IOSCO has worked on the GUUG project to propose to the Plenary a recommended governance arrangement for the Unique Transaction Identifier (UTI) and Unique Product Identifier (UPI), two data elements of OTC derivatives transactions that are important for aggregation of data reported to trade repositories.

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

**Mrs. Nezha Hayat**

> Chair of the Africa/Middle-East Regional Committee
> Chairperson and CEO,
Autorité Marocaine du Marché des Capitaux, Morocco

**During 2019, IOSCO´s Africa/Middle-East Regional Committee (AMERC) focused on a range of regulatory and financial issues facing both the region and IOSCO members in general.**

In January 2019, AMERC held its 42nd meeting in Kuwait, during which members discussed the issues related to sustainable finance, Fintech, long term finance, including listings, and financing for small and medium-sized enterprises (SME).

During the meeting, the Moroccan Capital Markets Authority (AMMC) and Abu Dhabi Global Market (ADGM) shared their experiences in developing green financial products in their jurisdictions. The Financial Sector Deepening Africa (FSDA) presented its ongoing work with nine AMERC members to promote and support sustainable finance initiatives to strengthen financial markets across sub-Saharan Africa. In the future, the FSDA will provide guidance on the implementation of sustainable finance standards in Africa, building on the foundation laid by the Marrakech Pledge, the regional agreement to promote green finance on the continent. AMERC agreed to partner with the FSDA to study listing regimes in the Africa Middle East region and map the way forward.

At the 43rd meeting of AMERC in May 2019, in Sydney, members considered how to foster market listings on the region's exchanges, a concern to all involved. The AMERC Working Group on Listings reported on its survey of members regarding listings in their jurisdictions. The report indicated that a vast majority of members had recorded ten or fewer listings over the previous five years, implying that businesses in the region, particularly SMEs, continue to depend heavily on banks, rather than capital markets, for financing.

Based on the survey´s findings, the Working Group made several recommendations aimed at streamlining the requirements for listings, educating and preparing companies to list and encouraging prospective issuers. AMERC believes these recommendations will help clear the way for more companies to list on regional exchanges, which is a key to future economic growth.

In addition, AMERC members discussed emerging risks and vulnerabilities in their jurisdictions. The committee contributed its conclusions to IOSCO´s annual Risk Outlook, thereby helping define the IOSCO Board´s priorities for 2020. Among the important risks for AMERC are cyber-security and resilience, crypto assets, money laundering, an unfavorable macroeconomic environment and investor protection issues.

In September 2019, in Abu Dhabi, AMERC held a high-level seminar on the *Development of Sukuk Markets in the Middle East and Africa*, jointly with the Islamic Financial Services Board. Participants gained insights into the prospects for and challenges facing Islamic Finance and Sukuk worldwide. They discussed issues such as the impact of technological innovation on the growth of Islamic Markets, the need to strengthen regulatory frameworks and how to enhance investor protection.

In November 2019, in Morocco, the AMMC organized a high-level program on developing green capital markets in the region, jointly with the Toronto Center. The event provided a venue for exchanging information on the global financial market, sharing experiences in building green capital markets, networking and debating the issues arising from climate change and related financial policy and institutional innovation.

The AMMC and Toronto Centre published a white paper on the key factors contributing to the development of green capital markets globally, examples of African countries that have developed or started to develop green capital markets and the key action-oriented recommendations discussed in the program.

Finally, I am grateful to the former Chair of the Kenya CMA, Paul Muthaura, for his efforts to advance the work of this committee during his mandate as Chair. I look forward to working together with all the members to strengthen cooperation across the region.

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

**Mr. Jun Mizuguchi**

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

**The Asia-Pacific Regional Committee serves as a forum for sharing information and promoting cooperation among securities markets regulators in the Asia-Pacific region. The committee also provides a platform for APRC regulators to engage with their counterparts in other regions on cross-border issues and to exchange views with the IOSCO leadership on work priorities.**

APRC members met twice in 2019 to discuss important issues for the region, including harmful but legal conduct, market fragmentation, Fintech, crypto assets and sustainable finance. Most of these subjects are also priorities for the IOSCO Board, which enabled the APRC to align its work with the Board´s policy initiatives and inform IOSCO policy and risk-analysis efforts from an Asia-Pacific perspective. In several cases, APRC members have led the IOSCO work streams on priority issues, underscoring the region's significant contributions to IOSCO work.

In 2019, the IOSCO Board agreed to draw more heavily on the expertise and experiences of its regional committees in identifying risks, trends and vulnerabilities in capital markets for the preparation of the IOSCO Risk Outlook. As requested, the APRC prepared short notes on specific risk-related issues, such as market fragmentation, crypto assets, the dark web and the private fund sector, analyzed from an Asia-Pacific perspective.

In June 2019, the IOSCO Follow-up Group to the former Task Force on Cross-border Regulation published a report on *Market fragmentation and Cross-border Regulation*. The report revisits the issues around cross-border regulation and its developments, which have been a standing agenda item at APRC meetings. Christopher Giancarlo, then Chair of the US Commodity Futures Trading Commission (CFTC), and I co-chaired this Group, which received significant input from APRC members. The report also cites the EU-Asia Pacific Forum, the annual dialogue among members of the APRC, the European Commission and the European Securities and Markets Authority (ESMA), as an example of how to foster mutual understanding. In October 2019, the Board approved the follow-up work plan to address market fragmentation. Going forward, the regional committees, including the APRC, are expected to identify whether and how existing and emerging issues are developing, taking into account the potential cross-border implications for the region.

At its meeting in Sydney in May 2019, the APRC created a working group to enhance supervisory cooperation among its members and inform IOSCO on policy issues regarding cross-border supervision. As part of this effort, members agreed to organize a pilot project of holding a high-level symposium on supervision to complement its annual Supervisory Directors' Meeting. The Australian Securities and Investment Commission (ASIC) and the Financial Services Agency Japan (JFSA) co-chair the working group.

The APRC has also been discussing conduct-related issues extensively, including harmful but legal conduct. APRC members actively encouraged the Board to consider addressing these issues at its meetings, which led to the establishment of a Board-level task force on retail market conduct in February 2020. The task force is co-led by ASIC, together with the Central Bank of Ireland.

The APRC´s work has long focused on the topic of crypto-assets. Because a number of APRC member jurisdictions have adopted or are considering legal and regulatory frameworks for crypto-assets, the APRC has proven to be a useful forum for peer authorities to exchange information and learn from each other. The experience and insights of the APRC member authorities informed the IOSCO-wide discussion on this matter, including the consultation report on *Issues, Risks and Regulatory Considerations Relating to Crypto-Asset Trading Platforms* published in May 2019.

In October 2019, the JFSA hosted the APRC plenary meeting in Tokyo. Among other things, the plenary meeting focused on sustainable finance, conduct-related issues and cross-border supervisory cooperation. The APRC agreed to make sustainable finance a standing agenda item. In April 2020, it established an APRC working group on sustainable finance, led by the Securities and Futures Commission of Hong Kong. The APRC's annual Supervisory Directors' Meeting and Enforcement Directors' Meeting, which typically precede the plenary meeting, promote and facilitate dialogue and the sharing of experiences among members concerning supervisory and enforcement-related topics of particular relevance to the region.

In conjunction with these meetings, APRC members also held the annual EU-Asia Pacific Forum in Tokyo. With the participation of 18 jurisdictions, the Forum has proven to be an excellent opportunity for regulators and supervisors from both regions to enhance cross border cooperation and address issues of common interest, such as sustainable finance and market fragmentation.

Finally, I would like to thank all APRC members for supporting my re-election as Chair of this committee. I believe the APRC's active contribution, as described above, provides the wider IOSCO community with valuable insights. Since March 2020, APRC members have been actively collaborating and exchanging information with each other regarding COVID-19. We have periodic conference calls to identify potential spill-over effects with a cross-border impact from COVID-19.

As APRC Chair, I am very much looking forward to continuing to work closely with all my APRC colleagues and other IOSCO members on important matters, including overcoming the current difficult situation.

## 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 that impact the region. As the largest regional committee, with 11 members and an observer on the IOSCO Board, the ERC is a regular contributor to the organization´s risk identification and policy-making work.**

During its three meetings in 2019 in Dublin, Sydney and Saint Petersburg, the ERC analyzed the principal developments in European and global securities markets and their possible implications for investor protection, financial market integrity and systemic risk. At their meetings, ERC members discussed IOSCO work on sustainable finance, the regulation of crypto-assets, misconduct, market fragmentation and cross-border regulation and financial technology, among other policy matters. ERC members also shared information on IOSCO´s increased interaction with other standard-setters and the Financial Stability Board.

As in past years, ERC members maintained an open and 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 EU regulatory developments throughout the year. While the EU´s regulatory initiatives have particular ramifications for European jurisdictions, their impact often extends beyond European borders. ERC helps ensure that other IOSCO members understand the European stance on important issues.

ERC members, especially ESMA, played a vital role in IOSCO´s discussions with the EU Data Protection Board on the EU General Data Protection Regulation (GDPR) that went into effect in May 2018. In February 2019, these discussions led to an agreement on the content of an Administrative Arrangement (AA) that provides safeguards for personal data transfers to supplement existing information-sharing arrangements and strengthen international cooperation. The AA offers a mechanism consistent with the GDPR under which European Economic Area (EEA) authorities can share personal data with non-EEA authorities for supervisory and enforcement matters. This agreement is of great importance to IOSCO because it enables members to continue exchanging crucial information for enforcement purposes under the IOSCO Multilateral Memorandum of Understanding (MMoU) and its newer, enhanced version, the EMMoU. During the year, the ERC encouraged its members to sign the AA to underpin IOSCO members´ enforcement work.

ERC members led key IOSCO initiatives in 2019, including the Fintech Network, the Sustainability Network and the ICO Consultation Network and Support Framework. Members received regular feedback on these initiatives from the ERC members who led them. This process allowed members to express their views on the preparatory workstreams that drafted important IOSCO reports, such as the report on Sustainable Finance, which were later published.

Since evidence of benchmark manipulation emerged in 2012, European members have been a driving force behind IOSCO´s pioneering work on the global benchmark reform. This work includes the campaign launched in 2019 to raise awareness among relevant market participants of how an early transition to Risk-


Free Rates can mitigate potential risks arising from the expected cessation of LIBOR after the end of 2021.

The ERC supported IOSCO´s work on market fragmentation, a priority for the G20 and the Financial Stability Board. On several occasions, the ERC discussed the measures that IOSCO could explore to mitigate the risk and potential adverse effects of fragmentation on global securities markets (see the resulting IOSCO report on *Market Fragmentation and Cross-Border Regulation*, published in June 2019). In 2020, members are focusing on follow-up work to this report.

During IOSCO's annual meeting in Sydney, the ERC participated, like the other IOSCO regional committees, in IOSCO´s risk identification work for the first time. By engaging with IOSCO´s four regional committees, the IOSCO Committee on Emerging Risks seeks to gain a broader view of key regulatory issues and the risks, trends and vulnerabilities in global securities markets, to inform the IOSCO Risk Outlook. ERC members prepared short discussion notes on artificial intelligence and big data, the impact of climate change on capital markets and the effect of low interest rates on retail investment -- all from a European perspective. The ERC strongly supports this risk identification process, as it elicits a wide range of views to supplement the input from policy committees.

I warmly thank the General Secretariat for its valuable help in supporting the Committee. I look forward to continuing to engage with my ERC colleagues and thereby contributing to the inclusiveness of the organization. The relationships and channels of communication that ERC members have forged among themselves in recent years will serve us well in meeting the continuing challenges that lie ahead with the outbreak of COVID 19.

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

**Mr. Antonio Quesada**

> Chair of the Inter-American Regional Committee
> Vice President, Regulatory Policy, Comisión Nacional Bancaria y de Valores, Mexico

**The Inter-American Regional Committee (IARC) met twice in 2019 to discuss issues relevant to securities regulators and supervisors in the region. Our committee meetings provide a platform for members to exchange ideas on IOSCO policy initiatives. Members also share their experiences in addressing the regulatory challenges posed by new financial technologies, market fragmentation, conduct issues, sustainable finance and, more recently, COVID 19, among other matters.**

IARC offers valuable analysis from its internal discussions to the Board and provides a regional perspective on critical issues that concern the wider IOSCO membership. Because IARC members are from both developed and emerging jurisdictions, the discussions are enriched by a broad range of opinions and experiences regarding the trends shaping global capital markets today. Increasingly, IOSCO depends on the regional expertise and reach of its four regional committees to access a broad cross-section of members and stakeholders for their perspectives on market developments. In particular, IOSCO´s Committee on Emerging Risks draws on the regional committees for its risk identification work that feeds directly into the Board´s Risk Outlook. This information-gathering process helps foster IOSCO's mission as an international organization.

Throughout 2019, IARC members shared information among themselves and provided input to Board priority work. Many discussions centered on international initiatives that help members understand how regulators worldwide are addressing issues directly affecting global capital markets.

At both IOSCO´s meetings, Secretary General Paul Andrews provided updates on the Board´s priority work related to market fragmentation, crypto assets, margin requirements and leverage in investment funds, among other matters. At the IARC meeting in Sydney in May 2019, Mr. Andrews also provided a summary of the work conducted by IOSCO´s information-sharing networks. These networks enable members to analyze the emerging issues shaping the future of securities regulation, such as Fintech, artificial intelligence and machine learning, sustainable finance and initial coin offerings.

During 2019, IARC discussed the key implications of stablecoins for capital markets and the regulatory approaches that different authorities were considering for addressing these issues. In addition, members reviewed the sustainability initiatives of the CNV of Argentina and the SIMV of the Dominican Republic.

IARC members acknowledged the importance of international cooperation for ensuring robust financial systems. Indeed, members cooperate extensively through the IOSCO MMoU to promote sound capital markets.

Likewise, members are encouraged to follow and, when possible, actively participate in the initiatives of the Assessment Committee (AC). In 2019, the focus was on the AC´s *Liquidity Risk Management in Collective Investment Funds Initiative* (an ISIM Project) and on the Principles related to the Regulator.

During the year, IARC members succeeded at deepening their relationship with the members of the Council of Securities Regulators of the Americas (COSRA), which facilitated the coordination and collaboration among regulators that is crucial for sustaining sound capital markets in the region. Particularly, FINRA of the US updated members about the 360 Transformation – an initiative to ensure FINRA is operating as efficiently and effectively as possible -- and its expected impact on the supervision of the US securities markets.

The North American Securities Administrators Association (NASAA) also strengthened its commitment to regulators in the region by continuing to reserve seats at its training sessions for IARC members. The aim is to enhance the communication channels between securities authorities in the Americas and securities regulators in US states and Canadian provinces.

The IARC also played a role in explaining the implications of the global benchmarks reform to regional stakeholders. This exercise is part of a wider IOSCO campaign to raise awareness among relevant market participants worldwide of the likely cessation of LIBOR after the end of 2021 and the need to transition from USD LIBOR to new Risk-Free-Rates. This initiative helps encourage prudent risk management across corporate and financial institutions and mitigate potential financial stability and conduct risks.

Finally, I would like to thank my predecessor Marco Ayerra, who resigned as Chairman of the CNV of Argentina in February 2020. During his term as IARC Chair, Mr. Ayerra worked to strengthen cooperation among IARC members. As the COVID-19 pandemic continues to impact our lives, these bonds of cooperation are proving crucial to our efforts to meet the challenges ahead.

# Assessment Committee

Committee Chair:
**Ms. Sharon Kelly (Quebec AMF)**
Committee Vice Chair:
**Mr. Liam Mason (FMA 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.**

## Progress on Thematic Reviews

### a) Thematic Review on Suitability Requirements with respect to the Distribution of Complex Financial Products

In 2019, the AC completed 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*. Twenty-nine members from both developed and emerging market jurisdictions participated in the thematic review. The final report was published on 26 September 2019. The report contains numerous findings and observations, including that (1) most of the participating jurisdictions have implemented the necessary rules aimed at preventing the mis-selling of complex financial products; (2) most jurisdictions have standards for how to treat customers fairly and for addressing conflicts of interest; and (3) the majority of jurisdictions require intermediaries to distinguish between complex and non-complex products, even though what constitutes a complex financial product differs among jurisdictions. Notably, none of the participating jurisdictions reported having a suitability regime specifically for complex products.

The report also found that most jurisdictions allow intermediaries to classify certain types of customers as non-retail (or its equivalent), based solely on the nature of the entity or specified monetary thresholds. However, these practices do not consider the complexity and riskiness of different products, as required by the Principles. The review also found that Fintech developments related to digital advisors and online platforms have created new suitability-related challenges.

In light of the findings and observations, the report indicates that jurisdictions must have effective supervisory and enforcement mechanisms to support suitability regimes for complex products and to ensure that intermediaries take corrective action where their behavior falls short of supervisory or regulatory expectations. The report also urges jurisdictions to consider enhancing disclosure requirements to help customers make informed investment decisions and understand the advice they receive from intermediaries.

### b) Thematic review on Business Continuity Plans with respect to Intermediaries and Trading Venues

In November 2018, the IOSCO Board approved a mandate for the AC to conduct a thematic review of the 2015 IOSCO reports on *Mechanisms for Trading Venues to Effectively Manage Electronic Trading and Plans for Business Continuity* (Trading Venues Report) and *Market Intermediary Business Continuity and Recovery Planning (BCP Report)*. The main objective of the thematic review is to assess the consistency of implementation of the two Recommendations and the two Standards set forth in the Trading Venues Report[3] and the BCP Report,[4] respectively, and describe the legislative, regulatory and policy measures taken

[3] Recommendation 1 to Regulators: Regulators should require Trading Venues to have in place mechanisms to help ensure the resiliency, reliability and integrity (including security) of critical systems; Recommendation 2: Regulators should require Trading Venues to establish, maintain and implement as appropriate a BCP.

[4] Standard 1: Regulators should require market intermediaries to create and maintain a written business continuity plan identifying procedures relating to an emergency or significant business disruption; Standard 2: Regulators should require market intermediaries to update their business continuity plan in the event of any material change to operations, structure, business, or location and to conduct an annual review of it to determine whether any modifications are necessary in light of changes to the market intermediary's operations, structure, business or location.

by participating jurisdictions.[5] The Review Team developed an Assessment Methodology and a related Questionnaire, which the AC approved at its meeting in Luxembourg in June 2019. Thirty-six IOSCO members from 33 jurisdictions are participating in the Thematic Review. The Review Team analyzed the responses it received to the questionnaire and sent follow-up questions to participating jurisdictions.

c) **Money Market Funds**

In 2019, the AC initiated a consistency review of IOSCO's MMF (money market funds) reforms. The review will assess the consistency of the implementation of seven out of 15 Policy Recommendations included in the 2012 IOSCO report on MMFs and will describe the contents of the legal and regulatory frameworks adopted in jurisdictions with significant MMF markets and assess them against IOSCO's 2012 Policy Recommendations for MMFs. The RT developed an Assessment Methodology and survey questionnaire. In July 2019, the AC circulated the questionnaire to nine participants accounting for more than 90% of the global MMFs. It analyzed the responses in September 2019 and met in Paris in November 2019 to discuss the ratings and drafting of the report.

d) **Liquidity Risk Management**

During its October 2019 meeting, the IOSCO Board discussed how the AC should approach the implementation review of the *2018 Liquidity Risk Management Recommendations for Collective Investment Schemes*, which were developed as part of the effort to take forward the FSB´s 2017 recommendations to address structural vulnerabilities arising from asset management activities. The Board approved the project specifications of this review at its February 2020 meeting.

### ISIM on Secondary and Other Market Principles

The first IOSCO Standards Implementation Monitoring (ISIM) program covered Secondary and Other Markets (Principles 33 to 37 of IOSCO's Principles). The Board published the final report on 12 February 2019. Overall, the review found that the implementation of Principles 33-37 is generally high across most of the jurisdictions, particularly in developed markets.

### ISIM - Principles Related to the Regulator

In June 2019, the Board approved the project specifications for conducting an ISIM project on the implementation of Principles Related to the Regulator (Principles 1-5) across IOSCO members. This project is expected to cover various member jurisdictions from both emerging and developed jurisdictions. The AC approved the Assessment Methodology and the survey questionnaire in September 2019. The questionnaire was circulated in October 2019 to the 56 IOSCO members who sent expressions of interest for participation in this review.

[5] This Thematic Review is an Implementation Assessment (or Level 2) Review.

**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.

The AC sent the 2019 updates to the Board by the 12 September 2019 deadline. In October 2019, it published the two reports *Update to the IOSCO Peer Review of Implementation of Incentive Alignment Recommendations for Securitisation* and *Update to the IOSCO Peer Review of Regulation of Money Market Funds.*

**Revision and simplification of the IOSCO Methodology for Assessing Implementation of the IOSCO Objectives and Principles of Securities Regulation and updating the IOSCO Principles.**

In June 2019, the Board approved the project specifications for updating the IOSCO Principles and simplifying the Methodology, with a final report expected by 2024. This project stems in part from an AC commitment to the Board to conduct a periodic review every five years to ensure that the Principles and Methodology are kept up to date. The AC has made progress on this work and is discussing available options to assist in simplifying the Methodology.

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

To promote the full, effective and consistent implementation of IOSCO Objectives and Principles of Securities Regulation, the AC 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.

**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.

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

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

**Securities regulators around the world use the IOSCO Multilateral Memorandum of Understanding[6] (MMoU) and its updated version, the Enhanced IOSCO MMoU (EMMoU), to help ensure effective global securities markets regulation. The MMoU and EMMoU represent a common understanding of how signatories should consult, cooperate and exchange information to strengthen regulatory enforcement in securities markets.**

Since 2005, IOSCO has required securities regulators with primary responsibility for securities regulation in their jurisdictions to sign the IOSCO MMOU to become ordinary members, underscoring the importance of this standard for enforcement purposes. 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.

The MMoU Screening Group is responsible for reviewing applications from authorities seeking to become signatories to the MMoU or EMMoU, to determine whether they meet the requirements for signing. When requested, the Screening Group also conducts preliminary assessments of draft legislative reforms that members propose to meet the requirements for becoming a signatory. The Screening Group comprises Verification Teams that perform the assessment of the applicants' compliance with the MMoU or EMMoU and subsequently present a report to the complete Screening Group for approval.

In discharging its duties, the Screening Group receives the support of the IOSCO Secretariat staff, which carries out formal checks on MMoU and EMMoU applications for completeness and clarity. The IOSCO General Secretariat also offers guidance and technical assistance to non-signatories to help them move forward with their applications.

## New Signatories to the MMoU and EMMoU in 2019

In 2019, the following three IOSCO members signed the MMoU, bringing the total number of signatories to 124 by year end, out of 157 eligible ordinary and associate members at that time:

- Commission d'Organisation et de Surveillance des Opérations (COSOB), Algeria
- Auditoria Geral do Mercado de Valores Mobiliários, Banco (AGMVM), Cabo Verde
- Astana Financial Services Authority (AFSA), Republic of Kazakhstan

Eight other members were listed on Appendix B, the list of members who have formally expressed their commitment to seek the legislative and administrative changes necessary for complying with the standards set out in the MMoU. One ordinary member remained in the non-signatory, non-Appendix B listed category, given that it had not yet committed to seeking the legislative changes for achieving MMoU compliance. In total, nine ordinary members remained non-signatories to the MMoU at the end of 2019.

## Enhanced MMoU

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

After 2002, financial markets underwent sweeping changes, driven by new technologies, regulation and the growing role of market-based finance in the global economy. In 2017, IOSCO established an enhanced MMoU to take into account the impact of these developments on IOSCO´s enforcement efforts. The EMMoU provides for additional enforcement powers that IOSCO believes are necessary for continuing to safeguard the integrity and stability of markets, protect investors and deter misconduct and fraud.

The General Secretariat began accepting EMMoU applications from members in April 2017. Since then, the General Secretariat has received EMMoU applications from 23 jurisdictions, and 13 of those jurisdictions became EMMoU signatories by the end of 2019. Currently, the Screening Group is conducting an assessment of another seven jurisdictions.

The following three jurisdictions signed the EMMoU in 2019:

- Alberta Securities Commission (ASC), Alberta
- Financial Market Supervisory Authority (FINMA), Switzerland
- Securities and Exchange Commission (SEC), United States of America

All members who submitted applications to become signatories to the EMMoU are currently 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 effect, jurisdictions will co-operate with their counterparts under the instrument to which they are

[6]The complete name on the MMoU is the Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information.

both signatories. However, the long-term expectation is for all MMoU signatories to migrate eventually to the EMMoU.

### MMoU Statistics

Every year, IOSCO collects statistics on how signatories use the MMoU to exchange information among themselves. These statistics help IOSCO track the use of the MMoU while determining which jurisdictions are the largest users globally and which are the largest within each of the four IOSCO regions. For many years, the MMoU Statistics were collected manually. But in 2017, the IOSCO Secretariat, with the support of the Screening Group, automated the process of statistics collection to make it more efficient and the data more accurate. This development gave birth to the automated MMoU Statistics System being used to collect and verify MMoU Statistics.

The statistics collected over the years indicate that the growing number of signatories has led to greater cross-border cooperation, enabling regulators to investigate more cases of insider trading, fraud and other offenses. A total of 526 requests for assistance were made pursuant to the MMoU in 2006. By 2019, the annual figure had reached 4,183 and is expected to continue its upward course as more members become signatories.

*For information on the MMoU and the European Data Privacy Regime (GDPR), please see the Board Sub-Group on Data Protection in the section on Task Forces.*


OICU-IOSCO
MMoU/EMMoU Training Workshop
verview of the IOSCO MMoU
5

# IOSCO Capacity Building

**In 2019, IOSCO continued its intensive work 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 2019 capacity building survey reflected a strong interest among members in training on Fintech, supervision, regulation, risk management of both macroprudential and operational risks, including cyber risk, financial market infrastructures, sustainable finance, regulation and supervision of investment funds, and market abuse and misconduct. 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 Secondary Markets, Principles on Enforcement of Securities Regulation* and the *Principles for Financial Market Infrastructures.*

In 2019, IOSCO offered its members a choice of training seminars at the IOSCO Asia-Pacific 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 2019, some 90 members from 45 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 9-13 December 2019 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 four years ago, more than 370 IOSCO members have enrolled. By the end of 2019, about 175 members completed the full three-week program – including the required online learning material and 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. Past training seminars have focused on *investment funds regulation and supervision; protecting investors through supervision, inspections and examinations*, and *investor education and protection.* In April 2019, some 75 members from 40 different jurisdictions attended the 21st STP on *Protecting the Retail Investor: A Securities Regulator Perspective.* Subject-matter experts discussed regulatory issues related to the retail securities markets, know-your client, mis-selling, ethics, retail sales violations, best execution, oversight and supervision, retail distribution and digitalization, communication and behavioral insights, data analytics and investor protection, and education.

### IOSCO Training Seminar on Financial Market Infrastructures (FMI)

In December 2019, IOSCO organized a training seminar in Madrid on the key characteristics of each FMI type, including Payments Systems, Central Counterparties, Central Securities Depositories, Securities Settlement Systems and Trade Repositories. The sessions included detailed presentations on FMIs and how the international standards – the CPMI-IOSCO Principles for Financial Market Infrastructures (PFMI) – apply to these categories. The training seminar was aimed at assisting IOSCO members in becoming familiar with the PFMI, increase their understanding and knowledge of the applicable principles for each FMI type and share their experiences on how securities market authorities and FMIs are moving forward in the implementation and observance of the PFMI, in both developed and emerging market jurisdictions.

### Joint IOSCO-Financial Stability Institute (FSI) Conferences

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

The 14th IOSCO/FSI Conference on Securities Trading Issues and Market Infrastructure was jointly hosted in November 2019 in Madrid. The program was attended by over 100 securities regulators and banking supervisors from 50 jurisdictions. It featured sessions on the interest rates benchmarks reforms, the fundamental review of the trading book by the BCBS, the work by the BCBS and IOSCO regarding margin requirements for non-centrally cleared derivatives, the work by the Committee on Payments and Market Infrastructures (CPMI) and IOSCO on financial market infrastructures, as well as matters regarding cyber resilience, digital innovations and cryptocurrencies, asset management, the legal entity identifier and market misconduct.

## IOSCO AMCC Training Seminars

IOSCO´s Affiliate Members Consultative Committee (AMCC) organizes an annual training seminar which is 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 100 IOSCO members attended the 12th edition of the AMCC Training Seminar hosted by IOSCO in Madrid in December 2019. Regulators and market participants covered the following topics involving the implementation of IOSCO Principles: (1) Retail Investor Protection, (2) Operational Resilience and Cyber-Security, (3) Emerging Markets, Emerging Opportunities, (4) Derivatives Basics and Related Regulatory Frameworks, (5) Enforcement, (6) Fintech, (7) Benchmarks and (8) Ethics.


### GEMC Regulatory Workshops

On a yearly basis, IOSCO's GEM Committee organizes a day of regulatory workshops on topics of interest to growth and emerging markets that often complement and support the work of the IOSCO Board.

At the 2019 Annual Conference in Sydney, the GEMC organized three regulatory workshops on *The future of financial benchmarks - Life beyond LIBOR; Are regulators agile enough in the face of rapidly evolving Fintech innovation?* and *What is the role of securities regulators in sustainable finance?* Also, at the 2019 GEMC Conference in St. Petersburg, the committee organized a regulatory workshop on investor education.

### Seminar/Workshop on AML/CFT Supervision for the Securities Sector

The Commission de Surveillance du Secteur Financier of Luxembourg (CSSF) hosted a Seminar/Workshop on AML/CFT (anti-money laundering and combating the financing of terrorism) supervision for the securities sector in Luxembourg on 21-22 October. CSSF and IOSCO jointly organized the event, which was attended by approximately 50 participants from 50 jurisdictions. Presenters included the co-chairs for the project on the Financial Action Task Force´s (FATF) Risk-Based Approach Guidance on the Securities Sector and experts from the CSSF, the US SEC, the FATF Secretariat and the IOSCO Secretariat. Participants also heard presentations from Europol on their experience with money laundering/ terrorist financing (ML/TF) in the financial sector; from the LUX-Financial Intelligence Unit on Typologies of ML/ TF in the securities sector; from the CSSF on Analytics in AML/CFT supervision (SupTech) and from the IOSCO Secretariat on international cooperation which is the cornerstone of cross-border AML/CFT enforcement in the securities sector.

### 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 the region and beyond.

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.

In 2019, the Hub had an active year with a steady stream of programs comprising four workshops, one conference on Islamic finance and two webcasts – one on Fintech and one on investor education and protection in the asset management industry. The latter was organized in conjunction with IOSCO´s World Investor Week 2019. In addition, the Hub live streamed a Fintech Conference held by SC Malaysia in Kuala Lumpur. The workshops covered key priorities and new and emerging topics relevant to securities regulators globally, such as crypto-assets, cyber-security and resilience, the MMoU/EMMoU on cooperation and exchange of information and onsite inspections. With almost 300 participants from over 40 jurisdictions, the programs enjoyed a high level of participation.

As an example of its activities, in November 2019, the Hub hosted the *IOSCO MMoU and EMMoU Workshop: A Guide on the efficient use of the MMoU/ EMMoU and pre-requisites for becoming an EMMoU signatory*. Targeted at MMoU signatories and members who expect to sign the EMMoU, this three-day workshop focused on the practicalities of the MMoU (e.g., the handling of complex and sensitive requests) to provide guidance on the efficient use of the MMoU. The workshop also discussed in detail the pre-requisites of becoming an EMMoU signatory and covered the Administrative Arrangement for the transfer of personal data between European Economic Area (EEA) Financial Supervisory Authorities and non-EEA Financial Supervisory Authorities.

In June 2019, the Hub organized a two-day workshop on *Strengthening Cyber Security and Resilience*. This workshop sought to enhance the cyber resilience and incident response capabilities of regulators and financial entities to help mitigate exposure to cyber risks. The workshop included an overview of the cyber risk landscape in financial markets, key components to promote sound cyber practices, cyber threat intelligence and decision making, regulatory approaches to cyber risk management and supervision of cyber risks. The workshop also comprised an exercise that required participants to analyze their responses to cyber threats and identify areas for further improvement, including developing response and recovery strategies that can be implemented within their respective organizations.

In February 2019, the Hub organized a workshop on *Crypto-Assets: Trends, Challenges and Regulatory Implications*. Participants discussed the latest developments and regulatory implications of crypto-assets and blockchain in securities markets. Subject matter experts discussed the opportunities, risks and challenges that crypto-assets present, approaches adopted by securities regulators and the application of blockchain technology in financial markets.

## 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 MMoU.

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 IOSCO Asia-Pacific Hub hosted the first *Technical Assistance Workshop on Developing On-Site Inspection Manuals* for the Asia-Pacific Region in September 2019. This two-day Workshop discussed various regulatory approaches taken for on-site inspections, particularly on routine, for cause and thematic reviews, as well as steps to develop an inspection manual. Discussions covered methods for requesting information, conducting interviews and following up on inspection outcomes. It also delved into synergies between on-site inspections, off-site supervision and enforcement actions.

### 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 2019, IOSCO focused on six selected jurisdictions from the Inter-American Region (IARC) –The Bahamas, Barbados, Costa Rica, Dominican Republic, Panama and Trinidad and Tobago. The first onsite phase took place in Christ Church, Barbados in March 2019 and the second onsite phase was held in San José, Costa Rica the following May.

### 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 2019, the program focused on five selected jurisdictions from the European Region – Albania, Armenia, Astana, Croatia, North Macedonia and Ukraine. The first onsite phase took place in Yerevan, Armenia in May 2019 and the second onsite phase was held in Skopje, North Macedonia the following October.


### Module 3 – MMoU

Securities regulators around the globe use the IOSCO 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.

Becoming a signatory to 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. In 2019, it provided assistance to Botswana, Cambodia and Paraguay.

## Other Capacity Building Initiatives

The MMoU team of the IOSCO General Secretariat provides procedural guidance to non-signatories of the IOSCO MMoU and encourages them to move forward with their applications as soon as possible. The MMoU team contacts those who have made little or no progress over time and suggests that members subject themselves to a preliminary assessment process or seek political support from the General Secretariat for the enactment of their new legislation. As an example, Sugeval in Costa Rica sought this type of support in 2019 and has now changed its law and reapplied to become a signatory to the MMoU.

IOSCO also offers the following programs, assistance and other capacity building tools:

- *Technical Assistance for members and non-members*
- *Data Sharing Platform*
- *Capacity Building Online Toolkit*
- *Capacity Building for Self-Assessments*

# Research Function

**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, the Research Function was split into two new departments: Emerging Regulatory Issues Department (ERI) and Market Intelligence and Data Analytics (MIDAT).

## The identification of global risks in capital markets

ERI supports the IOSCO Board in its identification, assessment and prioritization of risks, trends and vulnerabilities in global capital markets. It provides 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.[7]

ERI works closely with the CER to help shape Board priorities through the development of the Risk Outlook. It works to ensure that the risks, trends and vulnerabilities identified in the document are developed into tangible ideas for the IOSCO Board to consider in setting its policy agenda for the coming year. The CER delivered the 2019 Risk Outlook to the Board in October 2019 and the priorities it identified laid the foundation for the 2020 work program.

In 2018, the Risk Outlook was re-designed to ensure it benefits from greater input from policy committees, the Growth and Emerging Markets Committee and the Affiliate Members Consultative Committee. In 2019, this outreach was expanded to include the regional committees. Structured risk discussions are now conducted with each of these committees in the first quarter of the year to leverage the sectoral expertise, market knowledge and the jurisdictional and regional insights of their members. Perspectives on regulatory issues to emerge from the committee outreach program are channeled into the CER, which coordinates and oversees the development of the Risk Outlook.

The resulting report is a securities market-centric document presented to the IOSCO Board at its autumn meeting. It provides a coherent, evidence-based analytical framework for the Board to identify new priorities and determine its policy and standard-setting work for the year ahead. In doing so, the new format has strengthened the interaction between the research function, the Board and its committees. The final result is a document that complements the previous top-down approach to prioritization with a bottom-up view of key sectoral risks. The resulting work program serves to support the external communication of IOSCO's strategy.

## Data collection

MIDAT provides IOSCO committees with market intelligence, data and data analysis, often in response to requests. In 2019, MIDAT provided crucial data and analytical input into several key projects for IOSCO, including its work to develop a framework for assessing leverage in investment funds, a review on the implementation of IOSCO Recommendations on Money Market Funds and Liquidity Risk Management and work on corporate bond market liquidity in stressed scenarios. Further, MIDAT is responsible for implementing the biennial IOSCO Hedge Funds Survey data collection exercise – the basis for upcoming work on global leverage reporting.

## Outreach, education and training and capacity building

In 2019, MIDAT took part in many education and training initiatives on behalf of IOSCO, including the Global Certificate Program, the Seminar Training Program on Asset Management and Financial Stability Institute training.

[7]ERI supports IOSCO's participation in the Standing Committee on Assessment of Vulnerabilities (SCAV) and resources IOSCO´s contribution to SCAV's Analytical Group on Vulnerabilities and associated sub-committees (AGV FIN).

# 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, associate and affiliate members. Voting rights are restricted to ordinary members.

The Board is the day-to-day governing body of IOSCO. The 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 in Lima, Peru in May 2016. During 2019, 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 Dr. Obaid Al-Zaabi, Chief Executive Officer of the UAE Securities and Commodities Authority, ex-officio as GEM Chair (all three members of the leadership team were re-elected for the 2020-2022 term). The observers in 2019 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 and was re-elected for the 2020-2022 term. The GEM Committee seeks to promote the development and greater efficiency of emerging securities and futures markets by establishing principles and minimum standards, 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 capital market development work affecting emerging markets and regulatory capacity building. It provides training programs and technical assistance for members and facilitates the exchange of information and expertise.

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 G20 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 engaging regularly 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**.

## 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 the 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 speak 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 to hear detailed reports on key developments and the work of the organization, but they are not entitled to vote.

Contact Details

**General Secretariat**
International Organization of Securities Commissions (IOSCO)
Calle Oquendo 12
28006 Madrid. Spain

Tel: **(34 91) 417 5549**
Fax: **(34 91) 555 9368**
E-mail: **info@iosco.org**
Website: **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 (Finantsinspektioon) | 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 |
| Capital Market Authority of Montenegro | MONTENEGRO |
| 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 (Quebec AMF)* | QUEBEC, CANADA |
| Financial Supervisory 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 |
| 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 (30)

| | |
|---|---|
| Financial Services Regulatory Authorities | ABU DHABI |
| Union of Arab Securities Authorities | ARAB UNION |
| Asian Development Bank | ASIA |
| Central Bank of the Republic of Azerbaijan | AZERBAIJAN, REPUBLIC OF |
| Non-Bank Financial Institution Regulatory Authority | BOTSWANA |
| Securities and Exchange Commission of Cambodia | CAMBODIA |
| Centrale Bank van Curaçao en Sint Maarten | CURAÇAO |
| Financial Services Regulatory Authority | ESWATINI |
| 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 |
| 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 |

# 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 |
| Mutual Fund Dealers Association | CANADA |

*Member of the IOSCO Board
# Board observer

| | |
|---|---|
| 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 AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Deloitte.

Deloitte, S.L.
Plaza Pablo Ruiz Picasso, 1
Torre Picasso
28020 Madrid
España

Tel: +34 915 14 50 00
Fax: +34 915 14 51 80
www.deloitte.es

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, 2019, 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, 2019, 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 30, 2020

Deloitte, S.L. Inscrita en el Registro Mercantil de Madrid, tomo 13.650, sección 8ª, folio 188, hoja M-54414, inscripción 96ª.
C.I.F.: B-79104469. Domicilio social: Plaza Pablo Ruiz Picasso, 1, Torre Picasso, 28020, Madrid.

# Financial Statements

## Statement of Comprehensive Income (in Euros)

Year ended December 31, 2019

Notes 1 and 2

| | 2019 | 2018 |
|---|---|---|
| **REVENUE** | | |
| Contributions from members (Note 3) | 5,885,404 | 5,492,009 |
| Annual Conferences (Note 3) | 120,000 | 120,000 |
| Exchange Gain | 29 | 359 |
| Other | 3,225 | 11,629 |
| 2015 Capacity Building Program (Note 14) | 105,575 | - |
| **Total Revenue** | **6,114,233** | **5,623,997** |
| **EXPENSES** | | |
| Salaries and employee benefits (Note 4) | 3,571,026 | 3,372,331 |
| Rental and maintenance (Note 13) | 90,821 | 88,280 |
| Travelling | 493,887 | 383,926 |
| Office Supplies | 37,071 | 36,128 |
| Organization and follow up of meetings | 58,983 | 110,350 |
| Telecommunications | 77,795 | 61,738 |
| Delivery and communication | 3,727 | 5,506 |
| Printing and Annual Report | 19,413 | 28,064 |
| Information Technology | 220,620 | 210,840 |
| Professional fees | 222,320 | 184,792 |
| Capacity Building: Educational programs and Technical Assistance (note 15) | 418,026 | 327,610 |
| Miscellaneous | 46,630 | 54,445 |
| PIOB Funding (Note 5) | 100,000 | 100,000 |
| Amortization of capital assets (Note 7) | 62,317 | 66,532 |
| 2015 Capacity Building Program (Note 14) | 105,575 | - |
| **Total Expenses** | **5,528,211** | **5,030,542** |
| Taxation (Note 11) | - | - |
| **Excess of revenue over expenses before tax** (expenses over revenue) | **586,022** | **593,455** |
| Other comprehensive income net of tax | - | - |
| **Total comprehensive income for the year net of tax** | **586,022** | **593,455** |

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

# Statement of Financial Position (in Euros)

## Year ended December 31, 2019

Notes 1 and 2

| | 2019 | 2018 |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash (Note 6) | 6,151,879 | 5,044,937 |
| Term Deposits (Note 6) | 3,000,000 | 3,000,000 |
| Accounts Receivable (Note 8) | 7,517 | 55,479 |
| Prepaid Expenses (Note 9) | 43,603 | 75,500 |
| | **9,202,999** | **8,175,916** |
| Capital Assets (Note 7) | 163,806 | 207,452 |
| **Total Assets** | **9,366,805** | **8,383,368** |
| **LIABILITIES** | | |
| Current Liabilities | | |
| Accounts Payable and accrued liabilities (Note 8) | 501,668 | 402,066 |
| Contributions received in advance (Note 3) | 721,106 | 423,293 |
| **Total Liabilities** | **1,222,774** | **825,359** |
| **MEMBERS' FUNDS** | | |
| Excess of revenue over expenses net of tax (expenses over revenue) | 586,022 | 593,455 |
| Unrestricted members´ funds | 7,558,009 | 6,964,554 |
| **Total members' Funds** | **8,144,031** | **7,558,009** |
| **Total liabilities and members' Funds** | **9,366,805** | **8,383,368** |

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

# Statement of Changes in Net Assets (in Euros)

## Year ended December 31, 2019

Notes 1 and 2

| | | 2019 | 2018 |
|---|---|---|---|
| | UNRESTRICTED | TOTAL | TOTAL |
| Balance, beginning of year | 7,558,009 | 7,558,009 | 6,964,554 |
| Excess of revenue over expenses net of tax (expenses over revenue) | 586,022 | 586,022 | 593,455 |
| **Balance, end of year** | **8,144,031** | **8,144,031** | **7,558,009** |

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

# Statement of Cash Flows (in Euros)

## Year ended December 31, 2019

Notes 1 and 2

| | 2019 | 2018 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Total comprehensive income for the year net of tax | 586,022 | 593,455 |
| Depreciation of capital assets (Note 7) | 62,317 | 66,532 |
| Decrease (increase) in working capital items (Note 10) | 477,274 | 119,944 |
| (Gains)/Losses on disposal of non-financial assets | (293) | (1,100) |
| **Net cash generated** | **1,125,320** | **778,831** |
| **INVESTING ACTIVITIES** | | |
| Term deposits transactions (Note 6) | - | 1,265,000 |
| Capital expenditures (Note 7) | (18,378) | (57,164) |
| **Net cash used** | **(18,378)** | **1,207,836** |
| **Net increase (decrease) in cash and cash equivalents** | **1,106,942** | **1,986,667** |
| Cash and cash equivalents, beginning of period | 5,044,937 | 3,058,270 |
| **Cash and cash equivalents, end of period** | **6,151,879** | **5,044,937** |
| **CASH AND CASH EQUIVALENTS** | | |
| Cash (Note 6) | 6,151,879 | 5,044,937 |
| | **6,151,879** | **5,044,937** |

**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 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 2020.

## 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:

| | Methods | Rates |
|---|---|---|
| Furniture and fixtures | Straight-line | 20% |
| Computer equipment | | |
| Computers and Software | Straight-line | 33% |
| Servers and Printers | Straight-line | 20-25% |
| Audio-visual | Straight-line | 14-20% |

## 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. It has been agreed that this source of revenue will be discontinued starting in 2021.

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 2019 includes funding received from members in 2019, amounting to €721,106 which is designated for subsequent periods (contributions of €423,293 received in advance during 2018). Part of these contributions correspond to membership fees and contributions received in advance associated to the Secondments Program, together with the remainder corresponding to contributions received in advance from nominated Board members to fund the 2015 Capacity Building Program (see note 14).

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

| | 2019 | 2018 |
|---|---|---|
| Members´ contributions | 709,162 | 305,774 |
| 2015 Capacity Building Program | 11,944 | 117,519 |
| **Total contributions received in advance** | **721,106** | **423,293** |

**(in Euros)**

# 4 Salaries and employee benefits. Secondment program

The average staff of the General Secretariat in 2019 and 2018 is shown in the chart below:

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Men | Women | Total | Men | Women | Total |
| Permanent staff | 14 | 12 | 26 | 12 | 12 | 24 |
| Secondees | 3 | 1 | 4 | 4 | 2 | 6 |
| Intern | - | - | - | - | - | - |
| **Total Staff** | **17** | **13** | **30** | **16** | **14** | **30** |

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

| | 2019 | 2018 |
|---|---|---|
| Gross salaries | 2,834,490 | 2,619,849 |
| Spanish social security | 380,457 | 351,083 |
| Other social benefits | 356,079 | 401,399 |
| **Total salaries and employee benefits** | **3,571,026** | **3,372.331** |

**(in Euros)**

Other social benefits include the contributions to employees´ medical insurance, moving and relocation costs and the contributions made by IOSCO to employees´ defined contribution pension plans. 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 €229,479 (€225,246 in 2018).

In 2019, the Organization had the benefit of seconded staff from the Financial Services Agency of Japan (JFSA), the Financial Supervisory Service of Korea (FSS), 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:

| | 2019 | 2018 |
|---|---|---|
| Revenue associated to the Secondment Program | 183,724 | 192,474 |
| Subsidized expenditure associated to the Secondment Program | (180,422) | (195,324) |
| **Net as at December 31, 2019** | **3,302** | **(2,850)** |

**(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 €63,446 (€55,776 for the year 2018).

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.

# 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 2019 and in 2018.

# 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 2019 and 2018 are shown in the chart below:

| | | | | 2019 | |
|---|---|---|---|---|---|
| **Counterparty** (in Euros) | **Currency** | **Contract date** | **Maturity date** | **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 |
| **Total as at December 31, 2019** | | | | | **3,000,000** |

(*) Term deposits with quarterly liquidity windows

| | | | | 2018 | |
|---|---|---|---|---|---|
| **Counterparty** (in Euros) | **Currency** | **Contract date** | **Maturity date** | **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 |
| **Total as at December 31, 2018** | | | | | **3,000,000** |

(*) Term deposits with quarterly liquidity windows

# 7 Capital Assets

| | Furniture and fixtures | Computer equipment | 2019 Total |
|---|---|---|---|
| At the lower of recoverable value and cost | | | |
| Balance, beginning of year | 284,222 | 712,153 | 996,375 |
| Additions | 5,522 | 13,254 | 18,776 |
| Disposals | - | (1,139) | (1,139) |
| **Balance, end of year** | **289,744** | **724,268** | **1,014,012** |
| Accumulated depreciation | | | |
| Balance, beginning of year | (136,474) | (652,449) | (788,923) |
| Depreciation | (31,765) | (30,552) | (62,317) |
| Disposals | - | 1,034 | 1,034 |
| **Balance, end of year** | **(168,239)** | **(681,967)** | **(850,206)** |
| **Net as at December 31, 2019** | **121,505** | **42,301** | **163,806** |

**(in Euros)**

| | 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) |
| **Balance, end of year** | **284,222** | **712,153** | **996,375** |
| Accumulated depreciation | | | |
| Balance, beginning of year | (99,903) | (648,748) | (748,651) |
| Depreciation | (36,571) | (29,961) | (66,532) |
| Disposals | - | 26,260 | 26,260 |
| **Balance, end of year** | **(136,474)** | **(652,449)** | **(788,923)** |
| **Net as at December 31, 2018** | **147,748** | **59,704** | **207,452** |

**(in Euros)**

# 8 Accounts receivable and accounts payable and accrued liabilities

## a) Accounts receivable

| | 2019 | 2018 |
|---|---|---|
| Secondment contributions (See Note 4) | - | 54,612 |
| Other | 7,517 | 867 |
| **Total Accounts receivable** | **7,517** | **55,479** |

**(in Euros)**

### b) Accounts payable and accrued liabilities

| | 2019 | 2018 |
|---|---|---|
| Professional services | 61,186 | 65,907 |
| Occupancy (See Note 13) | 70,000 | 70,000 |
| Spanish Taxes (employee's income tax withheld) and Social Security | 215,880 | 145,616 |
| Contractual staff commitments (See Note 4) | 15,257 | 14,231 |
| Travel | 31,279 | 21,999 |
| Other | 108,066 | 84,313 |
| **Total Accounts payable and accrued liabilities** | **501,668** | **402,066** |

**(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 2019 and 2018 is as follows:

| | 2019 | 2018 |
|---|---|---|
| Travel booked in advance for subsequent periods | 8,178 | 12,224 |
| Professional fees and IT | 9,421 | 52,634 |
| Other | 26,004 | 10,642 |
| **Total Accounts payable and accrued liabilities** | **43,603** | **75,500** |

**(in Euros)**

# 10 Information Included in the Statement of Cash Flows

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

| | 2019 | 2018 |
|---|---|---|
| Accounts receivable | 47,962 | (55,367) |
| Prepaid expenses | 31,897 | 48,788 |
| Accounts payable and accrued liabilities | 99,602 | 85,587 |
| Contributions received in advance | 297,813 | (198,952) |
| **Increases (decreases) in working capital** | **477,274** | **(119,944)** |

**(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 (e.g., electricity, water, elevator maintenance). The estimated revenue in kind associated with the 56% share is €319,890 for 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 €89,864 for 2019 (€78,836 in 2018).

# 13 Rental and Maintenance

| | 2019 | 2018 |
|---|---|---|
| Estimated Spanish Authorities' charges for non-structural maintenance costs (see Note 12) | 70,000 | 70,000 |
| Other external maintenance services | 20,821 | 18,280 |
| **Total rental and maintenance** | **90,821** | **88,280** |

**(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 €228,056. During the course of 2017, the Board agreed to use the unspent funds to further enhance the pilot program. In 2019 IOSCO has spent €105,575 to support and develop the pilot program (no costs incurred in 2018). There is still a slight remainder of the 2015 CB program (€11,944) that will be carried over to 2020.

The unspent funds of €11,944 have been recognized as contributions received in advance from members (see note 3).

## 15 Capacity Building: Education and Training and Technical Assistance

The total costs incurred in Capacity Building activities in 2019, covering both Education and Training and Technical Assistance, is €418,026 (€327,610 in 2018). The increase in expenditure in 2019 compared to 2018 is explained by the fact that in 2019, IOSCO has delivered its capacity building program and in addition it has complemented this with activities carried over from 2017 and 2019.

IOSCO runs on an annual basis a comprehensive capacity building program aimed to assist IOSCO members with their training needs and to help them implement the IOSCO Principles and meet the requirements of the IOSCO Multilateral Memorandum of Understanding on Cooperation and Exchange of Information (MMoU).

These programs leverage on the experience and expertise at the IOSCO Secretariat and the IOSCO membership to promote market development and strengthen the regulatory and supervisory capacity of securities regulators.

In the area of education and training, IOSCO holds several important annual events, including the IOSCO/PIFS-Harvard Law School Global Certificate Program for Regulators of Securities Markets, the IOSCO Seminar Training Program, the Joint IOSCO-Financial Stability Institute Conference, the IOSCO Affiliate Members Consultative Committee Training Seminar and several workshops tailored to the Growth and Emerging Markets Committee of IOSCO.

IOSCO's Technical Assistance Program encompasses several programs, assistance and other capacity building tools, including: (i) technical assistance for members and non-members, (ii) Data Sharing Platform, (iii) Capacity Building Online Toolkit, and (iv) Capacity Building for Self-Assessments. It consists of modular technical assistance programs covering: (i) onsite inspection manuals, (ii) enforcement manuals, and (iii) the MMoU. The modular programs are designed to assist IOSCO members with the on-site inspection process for the supervision of investment firms and asset managers, during the enforcement process in their specific jurisdictions with detailed information about the approach to enforcement, conduct of investigations, investigative practices, cooperation, privileges and protection, and settlement.

In the area of enforcement and information exchange, IOSCO assists non-signatories of the IOSCO MMoU in their efforts to sign the MMoU by guiding them through the process. The assistance provided through the IOSCO General Secretariat provides procedural guidance and assists with progressing with their applications as soon as possible.

Additionally, IOSCO inaugurated its Asia Pacific Hub in Kuala Lumpur (the Hub) in March 2017. Hosted by the Securities Commission (SC) Malaysia, this initiative established IOSCO's first regional hub to deliver capacity building activities to securities markets regulators in a specific region. The running of the Hub does not have any financial implications for IOSCO. All costs related to the activities and operations of the Hub, including personnel, physical premises and facilities, maintenance, IT and other operating costs are supported by the host.

## 16 Auditors´ remuneration

in expenditure in 2019 compared to 2018 is explained by the fact that in 2019, IOSCO has delivered its capacity
The total remuneration to be paid by IOSCO to its auditors in 2019 and 2018 is €9,400 each year.

## 17 Subsequent Events

At the date of preparation of these financial statements, many jurisdictions around the globe are being significantly affected by the rapid expansion of the COVID-19 virus. Its, economic and social impact worldwide will ultimately depend on the duration and intensity of the pandemic. IOSCO has activated its Business Contingency Plan to ensure it can continue its operations in an efficient way including servicing its committees and membership on a remote basis IOSCO has conducted a preliminary assessment of the current situation based on the best available information and does not anticipate any significant impact on our ability to continue with our operations or any material impact on our overall financial position, liquidity or asset or liability valuation risks in the short term. IOSCO continues to monitor the evolution of the pandemic in order to successfully address any possible impacts, both financial and non-financial, that may occur. In any case, it is expected that these events will not affect IOSCO´s continuity.

International Organization
of Securities Commissions

C/ Oquendo 12, 28006 Madrid, SPAIN
Tel: (34) 91 417 55 49
Fax: (34) 91 555 93 68
Email: info@iosco.org
Website: www.iosco.org