



Annual Report 2008

INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS



IOSCO

IOSCO'S OBJECTIVES

- to cooperate together to promote high standards of regulation in order to maintain just, efficient and sound markets;
- to exchange information on their respective experiences in order to promote the development of domestic markets;
- to unite their efforts to establish standards and an effective surveillance of international securities transactions;
- to provide mutual assistance to promote the integrity of the markets by a rigorous application of the standards and by effective enforcement against offenses.



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Report from the Chairman of the Executive Committee

Jane Diplock AO

> Chairman of the Executive Committee

The global crisis has created an unprecedented momentum for reviewing financial regulatory issues and the international financial architecture. IOSCO's global reach and technical expertise enables the Organization to contribute to solving issues arising from the crisis and affecting capital markets.

Together with the Chairmen of the Technical and Emerging Markets Committees, and much support from the Secretary General and his team, we have emphasised IOSCO's role and strengthened our engagement with stakeholders.

Critical to resolving the crisis are co-operation and coordination between financial regulators and policymakers, supported by the will to make necessary regulatory or legislative changes. With its global reach and technical expertise, IOSCO is assisting policymakers to develop and implement common global regulatory solutions in response to the crisis.

As Chairman of the Executive Committee, I accepted an invitation to join the Financial Crisis Advisory Group (FCAG) jointly set up by the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB). IOSCO is the only international standards setter included in this high-level global advisory group which was established to examine financial reporting issues arising from the financial crisis. Its purpose is to advise the two boards about standards-setting implications of the crisis and potential changes to the global regulatory environment. The FCAG has held five meetings since January 2009 and a great deal of its deliberations are public. The FCAG is due to report in July 2009. Its members will reconvene in December 2009 to review the two boards' progress on applying its recommendations.

As our FCAG discussions have highlighted, the governance of standards setters and their independence from political interference in their operation are particularly important. To ensure independent public oversight of the work of the International Accounting Standards Committee Foundation and the IASB, IOSCO along with the European Commission, the Financial

Services Agency of Japan and the US Securities and Exchange Commission established a Monitoring Body, which held its inaugural meeting on 1 April 2009 in London.

In recent months IOSCO has undertaken projects in support of the G-20 Leaders' stated aims of strengthening transparency and accountability, and promoting integrity in financial markets.

In an open letter I signed on 12 November 2008, IOSCO welcomed the efforts of the G-20 and reinforced its willingness to assist in developing regulatory solutions. In the days following the November 2008 meeting of the G-20 Leaders, the Technical Committee launched three new taskforces to support the aims identified by the Summit. As of October 2008, the Emerging Markets Committee had also launched a taskforce examining the impact on and responses of emerging markets to the financial crisis based on a survey of its member regulators. This recent work is outlined in the reports of the Technical and Emerging Markets Committees.

In a 3 April 2009 press release, IOSCO welcomed the G-20 Leaders' statement of the previous day as an endorsement of our recent work to close the regulatory gaps in financial securities markets. On behalf of the Organization, I stressed our strong support for the work of the G-20 in developing effective responses to the global financial crisis, and welcomed the endorsement of recent actions taken by IOSCO aimed at enhancing market transparency and underpinning market integrity.

Where possible, IOSCO coordinates work with other international bodies. As a member of the re-established Financial Stability Board (FSB), IOSCO is committed to providing the necessary sectoral technical expertise to assist the FSB in its enhanced role. IOSCO also counts the International Monetary Fund (IMF), World Bank,



OECD and Asian Development Bank among its affiliate members.

Particularly welcome is the commitment of G-20 Leaders to the Financial Sector Assessment Program (FSAP) conducted jointly by the IMF and the World Bank, which uses IOSCO's *Objectives and Principles of Securities Regulation* (IOSCO Principles) and related Assessment Methodology when assessing the securities sector. IOSCO is committed to successful delivery of the FSAP in cooperation with the IMF and World Bank, and looks forward to achieving the outcomes the G-20 seeks.

Together with the Basel Committee on Banking Supervision and the International Association of

Insurance Supervisors (IAIS), IOSCO is a co-founder of the Joint Forum set up to examine regulatory issues common to the banking, securities and insurance sectors.

Additionally, as an independent standard setter, IOSCO will continue to formulate standards aimed at addressing gaps it identifies in securities markets regulation and ensuring appropriate standards are in place to resolve the global financial crisis.

While the Organization has already laid the solid foundation for a strong securities framework, there is still much to be done in relation to unregulated financial products and under-regulated market segments at the global level.

The IOSCO Principles are recognised as the benchmarks for all securities markets and IOSCO's *Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information* (IOSCO MMoU) has been instrumental in strengthening cross-border enforcement cooperation and enabling regulators to exchange information.

Cooperation and coordination amongst financial regulators and policymakers are critical to resolve the crisis. The ensuing G-20 program has generated the momentum for the regulatory or legislative changes necessary for implementing IOSCO's high standards of securities regulation and cross-border exchange of information and cooperation.

past year, the Executive Committee considered several applications for ordinary and affiliate membership and it will make related recommendations to the Presidents Committee at the Annual Conference.

The IOSCO Principles and Assessment Methodology are organic documents. The Executive Committee has therefore launched a review and mandated its task force on implementation of the Principles to take into account in this review current regulatory thinking and lessons learnt from the global financial crisis. The Executive Committee decided to adopt a staged approach and consider in the first instance recommendations in respect of those principles pertaining to enforcement and cooperation.



IOSCO has also forged ahead in facilitating easier and improved enforcement information exchange through the IOSCO MMoU and in our continued efforts to generate improvements in cross-border cooperation with “non-cooperative jurisdictions”. These are yielding significant results.

Widening the network of signatories to the IOSCO MMoU is one of the cornerstones of the strategic direction the Organization endorsed in 2005. Significant progress was made throughout the year and, as at the end of May 2009, 52 jurisdictions were signatories and a further 21 had committed to addressing issues preventing them from becoming signatories. Several other applications to join the IOSCO MMoU will be considered at our Annual Conference in Tel Aviv in June 2009. To help members fulfill the requirements for signing the IOSCO MMoU, the Organization offers technical assistance as required.

IOSCO's member regulators represent 109 jurisdictions and regulate 95% of global capital markets. Each year, the Organization continues to receive numerous applications for membership which the Executive Committee considers for recommendation to and endorsement by the Presidents Committee. Since 2005, applicant regulators have been required as a condition of membership to meet the very high international standards for international exchange of information and cooperation embodied in the IOSCO MMoU. Over the

The ongoing global crisis highlights the crucial importance of addressing stability concerns and reducing systemic risk, while protecting investors and promoting the fairness, efficiency and transparency of markets. In light of this, and the encouraging progress made by IOSCO during the year, it is timely to review the Organization's strategic direction beyond 2010.

The Executive Committee has set up a Task Force charged with reviewing IOSCO's strategic direction and making related recommendations for consideration by IOSCO's membership next year. The Task Force comprises the Chairmen and Vice-chairmen of the Executive, Emerging Markets and Technical Committees. The Task Force's approach is to start by examining IOSCO's role and key functions going forward. This will then assist in determining any structural or operational adjustments required to best fulfil these functions.

In the coming months, and until the Annual Conference of 2010, the Task Force will take the opportunity of various IOSCO committee meetings to update members on work progress and invite feedback from its various constituencies on this important task.

Our overarching aim is to position IOSCO for the requirements of regulating global capital markets in this 21st century, while taking into account lessons from the global financial crisis.





Report from the Chairman of the Technical Committee

Kathleen Casey
> Chairman of the Technical Committee

Over the past year, the Technical Committee has been extremely active in addressing regulatory issues raised by the subprime crisis and the ensuing financial market turmoil. These difficult times present formidable challenges as policymakers and regulators around the globe have sought to respond to the market disruptions and the causes, contributors and drivers of this crisis. Securities regulators have rallied together through IOSCO to address these challenges and develop international and coordinated responses to this crisis.

I want to take this opportunity to thank Christopher Cox for his contribution to IOSCO's Technical Committee as Chair during the most tumultuous days of the crisis, and I would also like to thank the chairs and members of the Standing Committees and Task Forces for their hard work and dedication to the Technical Committee. I would also like to specially recognize Hubert Reynier of the French Autorité des Marchés Financiers and Ethiopis Tafara of the US Securities and Exchange Commission for their leadership as Chairs of the Standing Committee on Investment Management and the Credit Rating Agencies Task Force, respectively.

Responding to the Subprime Crisis

In May 2008, at the time of IOSCO's last Annual Conference, the Technical Committee published a report of the Subprime Task Force. The mandate of the Subprime Task Force was to conduct an analysis of the underlying causes of the subprime crisis, examine the implications for international capital markets and issue recommendations that address the issues facing securities regulators. The Subprime Report identified four main areas of concerns and offered recommendations to the Technical Committee regarding: issuer transparency and investor due diligence; firm risk management and prudential supervision; valuation and accounting issues; and credit rating agencies. The Technical Committee, through its Standing Committees and Task Forces, has worked industriously on those areas identified by the Subprime Report and to follow through with implementation of the resulting recommendations.

The first area identified by the Subprime Task Force relates to issuer transparency and investor due diligence. Having consulted with market participants regarding typical structures and disclosure practices for private placements of asset backed securities, and analyzed information from market participants to examine the possible factors leading to the current credit crisis, the Standing Committee on Multinational Disclosure and Accounting (Standing Committee 1) is drafting principles regarding disclosure requirements for asset-backed securities in order to provide guidance to securities regulators who are developing or reviewing their regulatory disclosure regimes for public offerings and listings of asset-backed securities. These principles will be presented to the Technical Committee during the June 2009 meeting for consideration.

The Technical Committee is also, together with the financial services industry, examining the viability of a secondary market reporting system for different types of structured finance products. In addition the Standing Committee on Investment Management (Standing Committee 5) is reviewing the degree to which

investment managers who offer collective investment schemes to retail investors have invested in structured products; the type of due diligence typically conducted when making these investments; how these investment managers have been affected by the current market turmoil; and if and how investment managers may have shielded retail investors from the effects of their exposure to losses from structured finance products and any broader market implications. Standing Committee 5 will present the Technical Committee with due diligence good practices for approval at the June 2009 meeting.

The Subprime Task Force concluded that many institutional investors and investment banking firms:

- > had inadequate risk modeling and internal controls in place;
- > relied heavily on external credit ratings for their risk analysis; and
- > maintained inadequate balance sheet liquidity.

In response to these findings the Technical Committee is surveying members' experience on liquidity risk management and liquidity standards to assist and supplement work being undertaken jointly with the Basel Committee on Banking Supervision. The Technical Committee is closely monitoring the work of the Senior Supervisors Group on firm risk management to determine if further work is warranted by IOSCO in this area. Further, Standing Committee 1 is considering the guidance and disclosure relating to off-balance sheet entities that would prove valuable in meeting the needs of investors and providing such input to the International Accounting Standards Board (IASB) in conjunction with its accelerated work in this area. Finally, the Technical Committee decided to undertake a study of internal control systems of financial firms and asset managers and considering developing principles to address any concerns identified that compliments work done by the Senior Supervisors Group.

The Subprime Task Force also raised concerns about valuation practices and the role that fair value accounting principles have played in providing investors and regulators with adequate information about the strength of financial firms facing illiquid market conditions. It is also noted that some financial firms appear to have inadequate human and technological resources to model their financial positions using fair value accounting principles under illiquid market conditions. Given these concerns, Standing Committee 1 is considering the guidance and disclosure relating to measurement at fair value in terms of what would be valuable in meeting the needs of investors, and providing such input to the IASB in



conjunction with its accelerated work in this area. The Technical Committee is also exploring whether, as a matter of internal control, registered intermediaries and investment advisers avail themselves of practitioners who are sufficiently skilled or trained to model fair valuation adequately in illiquid market conditions.

The Technical Committee actively monitors developments with regard to accounting and auditing. In the area of accounting, the Technical Committee, along with the Emerging Markets Committee, is a member of the Monitoring Board, a body established to strengthen the institutional governance of the IASB. The International Accounting Standards Committee Foundation (IASCF), in turn, is the public interest overseer of the IASB, which promulgates International Financial Reporting Standards (IFRS). The role of the Monitoring Board is to provide a mechanism through which the IASCF can be held accountable to regulatory authorities that oversee investor protection. In particular, the Monitoring Board approves appointments of new



IASCF Trustees, and interacts regularly with the Trustees to ensure that they are carrying out their duties in the public interest. The IOSCO Technical Committee Vice Chair, Hans Hoogervorst, is the current chair of the Monitoring Board.

In the area of auditing, IOSCO is among the membership of regulatory and international financial institutions that comprise the Monitoring Group, which monitors the international Public Interest Oversight Board (PIOB). The PIOB oversees, from a public interest perspective, the standard-setting boards of the International Federation of Accountants (IFAC), which develop International Standards on Auditing (ISA) as well as international ethics and education standards for auditors. IOSCO also is a member of the Nominating Committee for the PIOB, with the right to nominate four members of the Board. The IOSCO Technical Committee Vice Chair, Hans Hoogervorst, is the current chair of the Monitoring Group.

Credit Rating Agencies

The subprime crisis and the current market turmoil revealed the importance of external credit ratings to the global securities market, as well as the necessity of independent credit rating agencies (CRAs) with procedures and practices in place that reduce conflicts of interest in the credit rating agency model. The *IOSCO Code of Conduct Fundamentals for Credit Rating Agencies* (IOSCO Code of Conduct) – revised in May 2008 in the wake of the subprime crisis – focuses on transparency and disclosure relating to credit rating agencies' methodologies, conflicts of interest, use of information, performance and duties to issuer and the public. The IOSCO Code of Conduct forms the basis of proposed legislation for several jurisdictions, and is cited in the G-20 Leaders Communiqué of 2 April 2009 as a common starting point for credit rating agency regulation around the world.

The Technical Committee conducted a review of adoption of the May 2008 revisions to the IOSCO Code of Conduct by credit rating agencies, which found that all of the largest, and many smaller, credit rating agencies had indeed adopted the revised IOSCO Code of Conduct or were planning to do so within the immediate future. The Technical Committee has also transformed the Task Force on Credit Rating Agencies into a permanent Standing Committee that will review and update the international regulatory consensus regarding CRA oversight and serve as a forum for regular interaction between regulators and credit rating agencies.

Response to the G-20 Communiqués

On 15 November 2008, the Leaders of the Group of Twenty (G-20) issued a communiqué on the financial markets and the world economy. The communiqué set forth several common principles for reform of the financial markets to be undertaken by the countries of the G-20. In response to this communiqué the Technical Committee held an extraordinary teleconference on 24 November in order to develop a detailed work plan focused on strengthening the financial markets and investor protections in response to the financial market turmoil. To further these aims, the Technical Committee established three new task forces.

The Task Force on Short Selling was established to explore issues associated with potentially abusive short selling during the financial crisis, as well as how to minimize adverse impacts of short selling regulation on legitimate securities lending, hedging and other types of transactions that are critical to capital formation and reducing market volatility. The Technical Committee has published a report by the task force that discusses issues related to naked short selling, the role of settlement discipline in limiting the potential adverse effects of short selling, and the merits of reporting on short sales transactions and short positions. The paper also proposes four principles for the effective regulation of short selling for public consultation. Once all public comments are taken into account, the Technical Committee plans to publish a final paper on short selling in June 2009.

The Task Force on Unregulated Financial Entities was mandated to develop recommended regulatory approaches to mitigate risks associated with the trading and traditional lack of transparency of hedge funds. A consultation report by the task force, which examines the role of hedge funds in markets, the regulation of hedge funds and their advisers around the globe, and the risks and benefits of participation by hedge funds in markets, has been published. The consultation report also contains recommendations regarding suggested regulatory approaches to hedge funds. The Technical Committee plans to publish a final report in June 2009.

The Task Force on Unregulated Financial Products and Markets was established to report on regulatory measures to improve confidence and transparency in the OTC market, with a particular focus on securitized products and credit default swaps (CDS). The task force report explores whether and how to extend to securitized products and CDS certain key regulatory principles that apply to regulated products and markets, in the areas of transparency, market conduct, and market infrastructure. The Technical Committee plans to publish a final report in summer 2009.

In order to more fully represent the changing and expanding global financial marketplace, the Technical Committee has extended new memberships to the Comissão de Valores Mobiliários of Brazil (CVM), the China Securities Regulatory Commission (CSRC) and the Securities and Exchange Board of India (SEBI), who are currently members of the Emerging Markets Committee of IOSCO. These new members were chosen on the basis of the size of their capital markets; the international nature of their markets including their commitment to IOSCO; and the development of their regulatory system and authority. I believe by expanding the membership, the Technical Committee will be better able to represent the views of securities regulators from all corners of the globe.

Among other recent work by the Technical Committee that warrants attention, is a report developed by the Task Force on Commodities Futures Trading that examines governmental and International Monetary Fund reviews of the issue of speculation in commodity markets, and contains recommendations to improve the supervision of commodity futures markets and global regulatory cooperation. In addition, the Task Force on Corporate Governance is close to finalizing a report on how each Task Force jurisdiction addresses the OECD Corporate Governance Principles regarding how corporate boards “should be able to exercise objective independent judgment on corporate affairs.”

Finally, 52 IOSCO members have become signatories to the IOSCO *Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information* (IOSCO MMoU), which contains specific commitments regarding the exchange of information for securities enforcement purposes, including information protected in many jurisdictions by banking secrecy laws. An additional 21 jurisdictions have been through the full verification process and have committed to removing the impediments to becoming a full signatory to the IOSCO MMoU. Currently, two-thirds of IOSCO members meet or have committed to taking the necessary steps to meet the IOSCO MMoU’s requirements and another 25 members have already submitted their applications to the IOSCO MMoU. The few remaining IOSCO members that have not yet applied to the IOSCO MMoU

are expected to do so soon as the deadline for all IOSCO members to apply, by January 2010, is fast approaching.

The Future Work of the Technical Committee

Since the full force of the financial crisis has been revealed, IOSCO has accelerated its work in all areas in order to present a united front to promote integrity in the financial markets, reinforce international cooperation, enhance financial regulation and reduce regulatory inefficiencies. The Technical Committee plans to publish final reports soon on important issues currently affecting the financial markets: short selling; unregulated financial entities, especially hedge funds; and unregulated financial markets and products. In developing these reports, the task forces held ongoing dialogues with financial market stakeholders in order to ensure that the work of the Technical Committee reflects the views and concerns of stakeholders. The Technical Committee regularly meets with financial market stakeholders to provide updates on IOSCO’s work and to seek the stakeholders’ views and input. The Technical Committee’s ongoing dialogue with financial market stakeholders is integral to IOSCO’s role of promoting high standards for securities regulation and for harmonization of market supervision. In this regard, the Swiss Financial Market Supervisory Authority (FINMA) will host the next Technical Committee Conference this coming October 2009 in Basel, Switzerland.

The Technical Committee will also participate in the new Financial Stability Board (FSB), which was created out of the Financial Stability Forum in the lead up to the G-20 Summit in April 2009. As an independent standard setting body of securities regulators, the Technical Committee will be an important resource for the FSB and will be able to provide expertise to the FSB in order to promote financial stability, maintain the openness and transparency of the financial sector and implement international financial standards, including IOSCO’s Objectives and Principles of Securities Regulation.

In these tumultuous times, the Technical Committee is evolving to reflect the changing financial marketplace, as well as striving to issue guidance and new principles for securities regulators in areas of ongoing concern. The unfolding financial crisis has again placed the emphasis on enhanced cooperation among regulators to present a global front against regulatory arbitrage and to strengthen coordination among regulators to share information across borders. The Technical Committee is committed to providing securities regulators with a forum to discuss emerging issues and develop international efforts to protect and promote financial stability within the global securities marketplace.



Report from the Chairman of the Emerging Markets Committee

Guillermo Larrain
> Chairman of the Emerging Markets Committee

It gives me great pleasure to address the entire IOSCO membership for the first time in my role as Chairman of the Emerging Markets Committee. As we are all aware this has been an extremely active period for many members from emerging markets jurisdictions as the financial crisis has continued to spread, from its initial roots in the complex structured financial products market, to affect all areas of the global financial markets and underlying national economies.

The members of the Emerging Markets Committee (EMC) come from a broad range of emerging markets ranging from some of the world's smallest to its largest countries, and span the entire range of development in financial services terms from nascent to highly sophisticated. However, despite the global crisis and attendant downturn, members of the EMC aspire to continue to develop their financial markets as venues for efficient capital-raising both nationally and internationally. IOSCO provides an essential framework that enables these members to meet and share information about their experiences, to discuss technical issues particular to emerging markets, and to benefit from training courses that draw on both emerging market and developed market experience.

With the goal of developing impartial and credible perspectives on the impact of the financial crisis on the jurisdictions and regulatory systems of the members of the EMC, it was agreed at our meeting in Marrakech last October 2008 to establish an EMC Chairman's Task Force to analyze the implications of the current crisis for securities regulators from emerging markets. Specifically, the Task Force was mandated to assess the impact of the crisis on emerging market economies and their securities markets, and in particular to identify the relevant regulatory issues.

In pursuing this mandate, the Task Force prepared a survey that was circulated to all EMC members aimed at identifying the key regulatory and supervisory issues that affected emerging market regulators and possible structural changes they may face as a result of the crisis. A consultation report on the survey results and the impact of the financial crisis on emerging markets is to be presented during the Annual Conference in Tel Aviv.

In conjunction with the above, the EMC has for some time now been working to promote the effective capture and incorporation of emerging markets perspectives into the development of securities markets policy and any action plans to combat the crisis. This sentiment was recently echoed by the G-20 in its call for major standard setting bodies to include more emerging economies within their membership in order to ensure that they more adequately reflect the realities of the world economy. In this context, I am happy to say that our own organization's Technical Committee was one of the first such bodies to respond, with its invitation to Brazil, China and India to join its membership.

I have actively promoted the view that emerging markets regulators have valuable experiences from past crises to share with the authorities and market participants in developed markets. In support of this, I have written to the Financial Stability Forum (now Board) to underscore the necessity of incorporating emerging market views within the supervisory colleges which regulate large complex financial institutions. A similar view was expressed in a letter sent to the G-20 heads of government meeting in April 2009 which highlighted the impact of the crisis on emerging markets and underlined the importance of closer cooperation and coordination between advanced and developing markets.

The EMC held two plenary meetings in 2008, the first took place during the 2008 Annual Conference in Paris while the second was hosted by the CDVM of Morocco in Marrakech in October 2008. On the other hand, the EMC Advisory Board met twice during the last 12 months, during the EMC Conference in Marrakech and in Washington in February 2009. The issues discussed at

these meetings included key strategic matters, the work accomplished by the EMC Working Groups, the formation of the EMC Task Force on the Crisis as well as the ongoing training and assistance programs for EMC members. In conjunction with the meetings in Marrakech, a one day public conference was held composed of public discussion panels which focused on areas of particular interest to EMC members and market participants including: IPO Challenges in Emerging Markets, Access of SME's to Emerging Markets, Investor Protection in Emerging Markets and Managing Globalisation of Emerging Markets.

Progress in meeting the IOSCO MMoU requirements

In pursuit of IOSCO's 2005 Strategic Direction on IOSCO's *Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information* (IOSCO MMoU), in the past year, many EMC members have undergone the application process for the IOSCO MMoU with identifiable results. In the case of the members from Bahrain, Kenya, Jordan, Montenegro and Thailand, following verification and screening, their legal regimes were deemed to meet the information exchange requirements in full and they were subsequently admitted as signatories to Appendix A of the IOSCO MMoU. The members from Argentina, Egypt, El Salvador, the Former Yugoslav Republic of Macedonia, Russia and Uruguay have, in signing Appendix B, expressed their commitment to seeking changes in their national legislation as soon as possible to allow them to meet the requirements of Appendix A.

The total number of signatories to Appendix A of the IOSCO MMoU is currently at 52 of which 24 are from EMC jurisdictions. In addition 19 members, mostly from the EMC, expressed their formal commitment under the terms of Appendix B of the IOSCO MMoU.

Increasing members' capacity

As part of its commitment to support the development of EMC members' capacity, IOSCO organized a number of important educational seminars. The annual IOSCO Seminar Training Program was held in Madrid from 18-21 November 2008 on the subject of Practical Approaches to Market Oversight, and consisted of a number of plenary sessions and breakout groups dealing with case studies. The seminar was aimed at providing members with an overview of the issues faced and approaches taken in relation to market oversight.

IOSCO's SRO Consultative Committee held a three-day seminar in Washington, D.C. in December 2008, to address topics of importance for emerging markets regulators. The seminar covered selected IOSCO Principles and issues and discussed their implementation in various jurisdictions, including: standards for market intermediaries, firm inspections, models of self-regulatory

organizations, accreditation of salespersons and market regulation.

An Assessors' Workshop run by the Implementation Task Force, with the support of the General Secretariat, was organized by the Securities and Exchange Board of India in Mumbai in February 2009. The workshop proved to be an excellent forum to exchange ideas and experiences between experienced and potential assessors on the assessment process of the IOSCO Principles, when using the IOSCO Methodology to conduct a Financial Sector Assessment Program (FSAP) or an IOSCO Assessment. The Workshop also provided an opportunity to identify potential assessors to support the roll out of the Principles Assessment Program.

Additionally, the General Secretariat continued to assist EMC members in the organization of regional training seminars, which are primarily focused on IOSCO's operational priorities. In 2008, regional seminars took place in Santiago in October on the IOSCO Principles and IOSCO MMoU, while another IOSCO MMoU workshop was held in Miami in March 2009.



The Year Ahead

The recent decision to admit Brazil, China and India to the Technical Committee is a vindication of the progress made by developing markets in recent years and a timely recognition of the realities of today's global economy. I am happy to say that these members have however indicated a willingness to remain closely involved with the work, and members, of the EMC. The EMC has also invited Mexico to share its expertise in developing its work agenda.

Emerging markets have learnt from past episodes of macroeconomic collapse and market disruption. As a result, several emerging markets today can contribute effectively to the discussions on building a more stable and sound international financial system and these must be taken into account in the new emerging global regulatory framework. I look forward to continuing to represent the views of EMC members in all matters of securities regulation that have implications for them.



Report from the Chairman of the SRO Consultative Committee

Yoshio Okubo

> Chairman of the SRO Consultative Committee
Senior Managing Director,
Japan Securities Dealers Association

Established in 1989, the SRO Consultative Committee (SROCC) contributes to regulatory policy development through the expertise and input provided by its members and related parties as a body of self-regulatory organizations. The SROCC comprises a total of 63 IOSCO affiliate members, representing developed and emerging securities and derivatives markets from around the world.

Mr. Yoshio Okubo, Senior Managing Director of Japan Securities Dealers Association serves as the SROCC Chairman.

Summary of SROCC's activities over the past year

In the past year, the SROCC held its annual meeting during the IOSCO Annual Conference in Paris in May 2008, its mid-year meeting and a training seminar in Washington, D.C. in December 2008.

Meetings held during IOSCO Annual Conference

During the conference, the SROCC held its working group meetings and plenary meeting.

The Ahead of the Curve Working Group, whose primary objective is to share information on emerging issues, exchanged information about responses by Self Regulatory Organizations (SRO) to the financial turmoil. The working group discussed a range of issues including rogue trader notice, innovative trading strategies, new/structured products, cross market surveillance and protection for aged investors, and agreed to continue to study these issues.

The Regulatory Staff Training Working Group is committed to assisting the staff of SROCC members in understanding a number of regulatory requirements and related inspection practices. The working group discussed the program for a face-to-face training seminar targeting the regulatory staff of SROCC and

Emerging Markets Committee member organizations and decided to hold the seminar in Washington, D.C. in December 2008.

At its meeting, the Working Group on Self-regulation heard a report on the results of a survey covering more than 40 SROs across the globe. The members agreed to produce a report to show different types of self-regulation distinguished by the level of binding authority of self-regulatory rules, governance structures and mechanisms to manage conflicts of interest.

In the SROCC Plenary Meeting, members received reports from the chairpersons of the Executive Committee and the Technical Committee, as well as the Secretary General. The meeting, which was also attended by the chairs of the Technical Committee's Standing Committees, discussed the work recently accomplished by these committees, their planned work programs, and how to strengthen practical cooperation on relevant issues with the SROCC.

The Committee also received reports from the World Federation of Exchanges on its ongoing activities and studies and from the International Forum for Investor Education (IFIE) on its recent activities.

Training Seminar

The SROCC, in cooperation with the Emerging Markets Committee, held a face-to-face training seminar in Washington, D.C. from 8-10 December 2008 for the members of both committees. The seminar was

attended by 58 participants from 25 jurisdictions representing all regions of the world. The event featured speakers from both regulatory authorities, including the US Securities and Exchange Commission and the UK Financial Services Authority, and SROs, including the Investment Industry Regulatory Organization of Canada, the Japan Securities Dealers Association, the Financial Industry Regulatory Authority and the National Funds Association from the United States. They delivered a selection of interesting presentations during sessions which focused on basic regulatory policies, prudential requirements, compliance assessment, supervision and inspection policies, SRO models, accreditation and registration requirements for market professionals and market surveillance. All of the sessions were conducted with reference to the relevant articles of IOSCO's *Objectives and Principles of Securities Regulation*. The seminar produced some very interesting exchanges of views and informative discussions, between the presenters and participants, regarding the regulatory challenges facing securities markets.

Mid-Year Meeting

The SROCC held its mid-year meeting in Washington, D.C. on December 11, 2008, where members reported on and discussed a number of on-going initiatives.

Mr. Jaime Caruana, International Monetary Fund (IMF), was a guest speaker at the meeting. He provided the IMF's views on the background, contributing factors and current development of the financial crisis, as well as the challenges to be faced in revamping the structure and regulation of financial markets. This presentation was followed by a general discussion with the members on a variety of issues including appropriate risk models for complex structured products and measures to be taken in markets that have lost liquidity.

The Working Group on Self-regulation discussed the contents of its study on SROs and agreed that it would present some examples of existing SRO models, as well as the diversity of approaches arising from the structure and historical background of each market.

The Regulatory Staff Training Working Group, having appraised the face-to-face training seminar involving

SROCC and Emerging Markets Committee members reached a consensus on continuing this type of activity. The members also discussed the structure and topics for the next seminar.

The Ahead of the Curve Working Group, was briefed by several members on the challenges that they were facing because of the financial crisis and their current and planned responses. The members also discussed the importance of enhancing the transparency of structured products, the need to strengthen market surveillance and concerns about ambiguity in asset evaluation caused by relaxed accounting standards.

The members received reports from the chairs of the Technical Committee's Standing Committee on Multinational Disclosure and Accounting and the Task Force on Credit Rating Agencies. In addition, the meeting was briefed by the IFIE on their recent activities and by the International Council of Securities Associations on their studies on international standards for accreditation of market professionals.

SROCC's Future Work Program

In light of the recent market turmoil, the SROCC is planning to exchange information regarding initiatives and measures taken or being considered by member organizations which will focus on the role to be played by SROs in strengthening market infrastructure. At the SROCC's next meeting in Tel Aviv in June 2009, and on other occasions in the next 12 months, it is expected that members will review and discuss the issues that the SROCC should tackle, with a view to increasing transparency and enhancing the risk management process in markets under pressure from the financial crisis.

Through the Working Group on Self-regulation, the SROCC will complete its study on different models of SROs and provide input to the ongoing reconsideration of IOSCO's Objectives and Principles of Securities Regulation. Additionally, the Regulatory Staff Training Working Group will begin planning the next training seminar for regulatory staff, which is likely to be held in early 2010.





Report from the Secretary General

Greg Tanzer
> Secretary General

The last year has been a challenging one for IOSCO and the General Secretariat as a result of the increased demands produced by the global financial crisis. Simultaneously, we are approaching a critical stage in the implementation of IOSCO's *Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information* (IOSCO MMoU), and have also embarked on a major review of IOSCO's *Objectives and Principles of Securities Regulation* (IOSCO Principles).

A large part of the past year's achievements at the General Secretariat level can be attributed to the secretariat staff who have responded to the increased workload with admirable professionalism by providing invaluable technical, strategic and administrative support to the working committees and task forces.

IOSCO's Strategic Positioning

The demand for IOSCO's policy and technical input, from outside bodies, has risen markedly in the past 12 months. As a result this has seen IOSCO, as a member of the Financial Stability Forum (FSF) and of the newly constituted Financial Stability Board, participate in the FSF's Working Group on Market and Institutional Resilience and its sub-committees on pro-cyclicality and valuation, and compensation practices.

The General Secretariat also provided input to the G-20 Working Groups on Enhancing Sound Regulation and Strengthening Transparency, and on Financial Market Integrity and International Cooperation on its crisis related work program in the lead up to the April 2009 G-20 Leaders Summit.

The FSF and subsequently the G-20 endorsed IOSCO's revisions to the Credit Rating Agency Code of Conduct,

and much of IOSCO's crisis related work was recognized in the G-20 Leaders' November 2008 and April 2009 Declarations.

The General Secretariat has also strengthened or re-established links with other international standard-setters and regulatory bodies¹, the international financial institutions² and with financial market stakeholders.

All of this increased external activity has helped raise the organization's profile tremendously, but it also means that there is a high level of expectation that we will continue to produce work that is timely, relevant and of high quality.

Supporting the IOSCO Strategic Direction

IOSCO has made substantial progress towards meeting its strategic objective of having all its members become a full signatory or have committed to becoming a full signatory to Appendix A of the IOSCO MMoU by 1 January 2010. From the 114 IOSCO members eligible

[1] These bodies include the Basel Committee on Banking Supervision (BCBS), the International Federation of Independent Audit Regulators (IFIAR), the Public Interest Oversight Board (PIOB), the International Accounting Standards Board (IASB), the International Association of Insurance Supervisors (IAIS); the Committee of European Securities Regulators (CESR) and the European Commission.

[2] The International Monetary Fund (IMF), World Bank and various regional development banks.

to become signatories, by mid May 2009 there were less than 20 members that had not yet submitted an application. In pursuit of this aim we held specialized workshops on the MMoU, with the support of our Regional Committee and Screening Group chairs, in Poland, Chile and the United States for members from those regions. We have also augmented our resources devoted to helping non-applicants with their applications through the secondment of two members of the Screening Group, from Portugal and British Columbia, to work at the General Secretariat for the next 12 months. With the willingness and cooperation of the remaining members, and with these extra resources, we are optimistic that we can meet the 2010 deadline.

The global financial crisis has reinforced the importance of the IOSCO Principles. The G-20 Leaders' Declaration explicitly recognizes the value of undertaking an independent review of the regulatory framework, of which the IOSCO Principles form an integral part. We have trained more assessors through an Assessors Workshop in February 2009, and our review of the IOSCO Principles to maintain their relevance is well under way. However, while we were able to complete one assisted IOSCO assessment during 2008, we continue to have many outstanding requests for assistance due to a combination of a lack of funding and of expert assessors. This needs to be addressed in 2009 and beyond.

To improve IOSCO's ability to serve the needs of its Emerging Markets Committee (EMC) members and enhance its training activities, the General Secretariat has taken two staff on secondment from Kenya and South Korea as EMC Advisors, and one from the United States as an Education and Training Consultant. They have been instrumental in supporting the work of the EMC Chairs' Task Force assessing the impact of the crisis on emerging markets, and in developing our 2009 training programs.

On the issue of training and education we have conducted a wide ranging Training Needs Analysis and Survey which will dictate the shape of our training activities in the coming years. During 2008 we held our annual Seminar Training Program in Madrid, on *Practical Approaches to Market Oversight*, which was attended by 62 participants from 31 jurisdictions. The General Secretariat also hosted a jointly organized seminar on *Market and Liquidity Risk* with the Financial Stability Institute which attracted 70 participants from 55 jurisdictions, evenly representing securities and banking regulators. A second joint Investor Education Conference was organized by IOSCO and the International Forum for Investor Education (IFIE) in Washington D.C. in March 2009. More than 100 investor education practitioners from governmental, quasi-governmental, self-regulatory and trade association bodies from over 30 countries attended the

event, which focused on creating and delivering successful new investor education programs and strengthening existing programs.

Staffing

IOSCO's General Secretariat is staffed by a small group of highly dedicated and professional staff. Regrettably later this year we will say farewell to our Deputy Secretary General, Jean-Pierre Cristel, who has served IOSCO for over 20 years. While we face the loss of such an experienced staff member, we have also seen the arrival of new staff through the successful implementation of the IOSCO Secondment Program. We expect this to provide excellent opportunities for those seconded from their home agencies, and a boost to the human resources available to the General Secretariat to continue to provide a high standard of service to members. We continue to maintain a good geographical spread amongst our staff, who come from jurisdictions across the globe. We currently boast staff from Australia, Canada, France, Ireland, Kenya, the Netherlands, Portugal, South Korea, Spain, Sweden and the United States of America.

Conclusion

As we look ahead through 2009 and beyond, we look forward to the emergence of improved economic conditions and the return of activity to capital markets across the globe. However on the road to economic recovery IOSCO must remain committed to supporting the new financial regulatory system through its work, as the focus on the role of global financial markets regulators and standards setters, their ability to improve their coordination and develop rigorous regulatory standards, will continue to be intense.



The Work of IOSCO's Committees during 2008

The work of IOSCO is carried out by two specialized committees, the Technical Committee and the Emerging Markets Committee.

The Technical Committee

The Technical Committee continuously assesses the global financial landscape and anticipates likely developments in securities markets policy. Its objective is to review regulatory issues related to international securities markets and to coordinate practical responses to these concerns. The Emerging Markets Committee aims to develop and improve the efficiency of emerging securities markets through the introduction of minimum standards, training programs for members' regulatory staff and facilitating the exchange of information, technology and expertise.

Both committees divide their work broadly between five functional areas:

- > Disclosure and Accounting;
- > Regulation of Secondary Markets;
- > Regulation of Market Intermediaries;
- > Enforcement and Exchange of Information; and
- > Investment Management.

The Technical Committee work is carried out by Standing Committees while the Emerging Markets Committee's remit is met through its Working Groups. The committees may also from time to time establish special task forces to examine specific topical issues or developments in the financial markets.

The last 12 months have been eventful and busy times for IOSCO's Standing Committees and Working Groups as they have been engaged in some major pieces of work linked to the ongoing financial crisis, as well as continuing to pursue mandates in their respective areas of responsibility. The task forces of the two committees carry out their work to separate mandates but co-operate extensively where those mandates overlap.

The work of the Technical Committee's Task Forces has already been detailed in the report from the Chairman of the Technical Committee. Similarly the work of the Emerging Markets Committee Chairman's Task Force on

the Crisis was dealt with in the report from the Chairman of the Emerging Markets Committee.

2008 – The Technical Committee's Work Program

Multinational Disclosure and Accounting

The work program of the Standing Committee on Multinational Disclosure and Accounting continues to focus on the quality of financial information provided to investors by listed companies and financial institutions, and the accounting and auditing standards that underpin this information. IOSCO reiterated its continued commitment to developing and enforcing high quality standards in a statement from the Technical Committee in October 2008.

The last 12 months has seen the Standing Committee's work focus on those issues raised by the financial crisis particularly in the areas of improved issuer transparency and valuation and accounting issues. This has included developing Disclosure Principles for Public Offerings of Asset-Backed Securities, which will be concluded in the near future. The Standing Committee has also been actively monitoring and participating in the efforts concerned with examining financial reporting issues raised by the crisis, which has included liaison with the International Accounting Standards Board (IASB), the Financial Accounting Standards Board (FASB) and the Financial Stability Forum (FSF).

The Standing Committee continues to be involved in monitoring and supporting the work of the international accounting standard setting bodies, through providing views on behalf of the Technical Committee in relation to their work, as a participant in working groups and observers. These include the projects being undertaken by the International Accounting Standards Board (IASB), the work of IFAC's International Auditing and Assurance Standards Board (IAASB) on clarifying the development of International Standards of Audit (ISA) and the activities of other bodies including the International Forum of Independent Audit Regulators (IFIAR) and the International Ethical Standards Board for Accountants (IESBA). IOSCO believes that international audit standards that contribute to high quality audits are important for securities regulators and

essential to maintaining investor confidence, so it continues to monitor the work by the IAASB on producing new updated standards.

In tandem with the focus on the clarity of information available to regulators and investors and its crisis related work, the Standing Committee has also been examining aspects relating to the disclosure of information. It is currently engaged in developing Principles for Periodic Disclosure by Listed Entities for the types of non-financial information which public issuers should include in their periodic reports. These Principles will be published in the near future.

Regulation of Secondary Markets

The Standing Committee on the Regulation of Secondary Markets, in common with the other standing committees, has been pursuing issues related to the ongoing crisis as well as continuing to work on the issues raised by developments in the structure of global capital markets and the markets and exchanges infrastructure.

The Standing Committee's crisis-related work has been taken up with examining the viability of a secondary market reporting system for different types of structured finance products. This work is ongoing.

The evolving nature of markets has also seen changes in the methods used by participants to access trading venues, and the committee, along with the Standing Committee on Regulation of Intermediaries, recently published a consultation report on Direct Electronic Access setting out possible principles addressing pre-conditions for Direct Electronic Access, information flow and adequate systems and controls.

The development of new market structures has also raised issues around the use of third-party providers to carry out processes, services and activities on behalf of market infrastructure operators. In response to these concerns the Standing Committee issued a consultation

report on possible principles designed to assist markets and markets authorities when considering outsourcing arrangements.

The recent focus on the growing use of dark pools of liquidity by financial institutions has resulted in a new mandate to examine the key regulatory issues this raises for supervisors. The issues that will be examined include transparency and price discovery; fragmentation; information leakage; fair access; and the ability to access actual trading volume in dark pools. The Standing Committee will also consider whether it needs to provide guidance to assist regulators in dealing with these issues.

Regulation of Intermediaries

The role of intermediaries in today's volatile markets is a critical one. The manner in which they meet their legal and regulatory responsibilities through proper systems and controls, manage their conflicts of interest and ensure that clients' interests are protected, is a key part of IOSCO's *Objectives and Principles of Securities Regulation* and of vital importance to the efficient functioning of securities markets.

In pursuit of its role in ensuring that adequate standards exist in relation to financial intermediaries and market access, the Standing Committee has recently produced a joint consultation report with its counterpart on the Regulation of Secondary Markets on Direct Electronic Access. In relation to the protection of client's interests, the committee continues to examine, together with the Standing Committee on Investment Management, the effectiveness of disclosure of information on financial products - in particular Collective Investment Schemes (CIS) - to investors at the point of sale.

In crisis-related work, the committee is examining possible weaknesses in financial institutions controls on the management of illiquid assets and is also conducting a related project on liquidity risk management in securities firms.

Enforcement and Exchange of Information

Enforcement co-operation between regulators continues to be an area of great importance for IOSCO and the Technical Committee. The Standing Committee on Enforcement and Exchange of Information has been heavily involved over the last 12 months, in supporting the work of the Screening Group and the General Secretariat in assisting members to meet the requirements for becoming signatories to the IOSCO *Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information* (IOSCO MMoU). The deadline for this is January 2010.





The Standing Committee continues to pursue work in relation to developing practical cross-border cooperative solutions to the international boiler room problem, that persists across many jurisdictions. It also continues its contact with other international bodies concerned with tackling securities violations.

The IOSCO Contact Initiative, which seeks to engage on a positive basis with under-regulated or uncooperative jurisdictions, has seen good progress made with a number of jurisdictions. A number of these have committed to make the necessary changes to enable them to apply to join the IOSCO MMoU in the near future. However there are still jurisdictions which require further attention.

The committee continues to work to ensure the implementation of guidelines and procedures, facilitating better links amongst members in allowing the exchange of information and greater co-operation in enforcement actions.

Investment Management

The growth in importance of this sector of the world's financial markets, and the effect of the financial crisis, is reflected in the work undertaken by the Standing Committee on Investment Management during the last 12 months, which has again focused on hedge funds and CIS.

A final report on Funds of Hedge Funds considering the issues arising from the growing involvement of retail investors with hedge funds was published during 2008. This report has led to the committee consulting on Proposed Elements of International Regulatory Standards on Funds of Hedge Funds Related Issues Based on Best Market Practices, aimed at funds of hedge funds' managers to address regulatory issues of investor protection in light of the increased involvement of retail investors in hedge funds through funds of hedge

funds. The report focuses on the managers' approach to dealing with liquidity risk and the due diligence processes used by managers prior to and during the life of an investment. This will be finalized soon.

In relation to the regulation of investment funds the committee also published a paper on the issues related to real estate funds in 2008 and continued its joint mandate work with the Standing Committee on the Regulation of Intermediaries on point of sale disclosure.

The committee is also finalizing its work focusing on investment managers selection of underlying funds and the due diligence and on-going monitoring performed by the fund managers.

2008 – The Emerging Markets Committee's Work Program

Disclosure and Accounting

The Working Group on Disclosure and Accounting has continued its work aimed at raising its members' awareness of the issues associated with the convergence of domestic financial reporting with international financial reporting standards, and providing them with relevant guidance. It has pursued this through a combination of high level presentations from senior representatives of the international standard setters for accounting and auditing – such as the IASB and IFAC – and its continued close cooperation with the Technical Committee's Standing Committee on Multinational Disclosure and Accounting on joint mandates. This has included recent work on the application of ISA's by IOSCO members.

Regulation of Secondary Markets

In the more challenging environment which has developed as the global crisis has spread to emerging markets, effective market surveillance is now of critical

importance in maintaining a fair and effective trading environment. Increased competition, flow and volatility of cross-border transactions and the advent of new products has meant that market surveillance is becoming increasingly challenging in emerging markets jurisdictions. Furthermore, developments in market infrastructure have also created new oversight challenges for emerging markets. This has resulted in the need for increased vigilance by emerging markets regulators against potential market abuse and their markets increasing exposure to global market risk.

The Working Group is currently working on a mandate on Approaches to Market Surveillance in Emerging Markets. The report will examine the current approaches adopted by emerging market regulators and/or exchanges to monitor markets; the regulatory arrangements in place to conduct internal and cross-border surveillance; surveillance systems used to monitor markets; an analysis of current methods used globally to intervene once market abuse is detected; and international cooperation with foreign regulators and/or exchanges on matters involving market surveillance.

During the course of their work on this report, the Working Group has drawn on the expertise of surveillance experts from leading exchanges in developed markets, in particular the London Stock Exchange and Euronext.

Regulation of Financial Intermediaries

The Working Group on Regulation of Financial Intermediaries is currently developing Guidelines for Minimum Entry Requirements and Continuous Risk Based Supervision for Market Intermediaries. The objective is to survey the nature and scope of the currently applicable minimum entry requirements for intermediaries, as well as criteria for risk based supervision among Emerging Market Committee (EMC) members.

In pursuit of this mandate the Working Group is examining the current regulatory infrastructure/framework applicable to market intermediaries, the approaches adopted by the exchanges and/or regulators to monitor operational, market, credit, financial, compliance, legal and other risks in various EMC jurisdictions. The report will cover the adequacy of infrastructure in terms of administration, technology, financial and human resource systems adopted by emerging markets jurisdictions to monitor financial intermediaries.

It is intended that the final report will contain an analysis of the existing systems used by EMC regulators, the factors affecting risk based supervision and individual regulators experiences which will contribute to enhancing risk management standards and procedures in the markets.

Enforcement and Exchange of Information

The Working Group on Enforcement and Exchange of Information is currently carrying out further work on its mandate on the exchange of information in relation to fit and proper assessments, it is also actively involved in supporting the work of the Screening Group and its verification teams, and in assisting members dealing with the obstacles they face in signing the IOSCO MMoU.

The Capital Markets Board of Turkey, together with the Polish Financial Supervision Authority, organized a seminar on Enforcement Aspects of Takeover Regulation in Istanbul. The seminar focused on the key issues in takeover regulation and supervision, as well as current trends and the presentation and discussion of a number of case studies from both EMC and Technical Committee jurisdictions. The seminar was also presented with an updated version of the Report on Takeover Regulation in the Jurisdictions of some IOSCO EMC members.

The issue of properly establishing the fitness of individuals to participate in regulated financial activity continues to be a matter of concern and interest to regulators, and the Working Group has been actively engaged in work over the last year on its mandate on the exchange of information regarding fit and proper assessment. Its work is aimed at identifying the nature and scope of the assessments and a final internal report was presented to members in Marrakech. However, as a result of the interest in the report and the issues it highlighted with regard to differences in practice, the Working Group has decided to do further work and is currently working on Best Practices on Exchange of Information under Fit and Proper Assessment.

Investment Management

The Working Group on Investment Management has continued, through its work, to offer support and assistance to members with the issues they encounter in their supervision of their developed and developing fund management industries, particularly in the area of CIS.

The Working Group is currently working on preliminary reports on the Development & Distribution of Foreign Collective Investment Schemes (CIS) Funds in Emerging Markets and also on the Development of Collective Investment Schemes (CIS) Industry in Emerging Markets – which is a regular survey of members' experiences in the development of their markets.

Besides the work on these mandates, the Working Group has been instrumental in organizing presentations for members by regulators and industry representatives on topics related to the above mandates during the IOSCO and EMC Annual Conferences in 2008.



General Information

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

The objectives of IOSCO's members are:

- > to cooperate together to promote high standards of regulation in order to maintain just, efficient and sound markets;
- > to exchange information on their respective experiences in order to promote the development of domestic markets;
- > to unite their efforts to establish standards and an effective surveillance of international securities transactions; and
- > to provide mutual assistance to promote the integrity of the markets by a rigorous application of the standards and by effective enforcement against offenses.

Structure of IOSCO

The Presidents Committee, which meets once a year during the Annual Conference, is made up of all the presidents of both ordinary and associate member agencies and has all the powers necessary to achieve IOSCO's aims.

The Executive Committee acts as the executive arm of the organization and is currently chaired by Ms. Jane Diplock. It is composed of the following 19 members:

- > the Chairmen of the Technical and Emerging Markets Committees;
- > the Chairmen of the four Regional Committees – Africa/Middle-East Regional Committee; the Asia-Pacific Regional Committee; the European Regional Committee and the Inter-American Regional Committee;
- > 1 ordinary member elected by each Regional Committee from among the ordinary members of that region; and
- > 9 ordinary members elected by the Presidents Committee.

The current members of the Executive Committee represent the ordinary members from:

Argentina, Australia, Belgium, Brazil, Chile, China, People's Republic of, France, Germany, Italy, Japan, Morocco, New Zealand, Spain, South Africa, United Kingdom, United States of America and Uruguay.

The chairs of both the Africa/Middle East Committee and the Asia-Pacific Committee are currently vacant and will be filled shortly.

The Executive Committee meets periodically during the year and, subject to the By-Laws of IOSCO, takes all decisions and undertakes all actions in support of achieving IOSCO's objectives.

IOSCO has four Regional Committees, which meet to discuss problems specific to their respective regions and jurisdictions:

Africa/Middle-East Regional Committee;

Asia-Pacific Regional Committee;

European Regional Committee; and

Inter-American Regional Committee.

The Executive Committee has established two specialized working committees. The first is called the Technical Committee and is made up of fifteen agencies

that regulate some of the worlds larger, more developed and internationalized markets. Its objective is to review major regulatory issues related to international securities and futures transactions and to coordinate practical responses to these concerns. The members of the Technical Committee are Australia, France, Germany, Hong Kong, Italy, Japan, Mexico, the Netherlands, Ontario, Quebec, Spain, Switzerland, United Kingdom and the United States. This committee's membership will expand to include the members from Brazil, China and India from June 2009.

The second specialized committee is called the Emerging Markets Committee which endeavors to promote the development and improved efficiency of emerging securities and futures markets by establishing principles and minimum standards, preparing training programs for the staff of members and facilitating the exchange of information and transfer of technology and expertise.

Self-Regulatory Organizations (SROs), who are affiliate members of IOSCO, are members of the SRO Consultative Committee. IOSCO recognizes the importance of maintaining a close dialogue with the SROs and international organizations who make up its affiliate membership, and of allowing and encouraging them to make a constructive input in the work of IOSCO. The SRO Consultative Committee has ongoing contact with the Technical Committee Standing Committees and Task Forces which ensures it is in a position to provide substantive input on their regulatory initiatives.

I O S C O S T R U C T U R E



Annual Conferences

IOSCO's members meet every year at its Annual Conference to discuss important issues related to global securities markets regulation. Observers may attend. Event and registration can be found at www.iosco.org/events or can also be obtained from the IOSCO General Secretariat. The 2009 Annual Conference will take place in Tel Aviv and will be hosted by the Israel Securities Authority (ISA).

Previous Annual Conferences

Caracas , Venezuela	September 1974*
Lima , Peru	January 1976 *
Buenos Aires , Argentina	November 1977*
Queretaro , Mexico	November 1978*
Rio de Janeiro , Brazil	November 1979*
Montreal , Quebec	September 1980*
Washington, D.C. , United States of America	May 1982*
Quito , Ecuador	April 1983
Toronto , Ontario	August 1984
Cartagena , Colombia	June 1985
Paris , France	July 1986
Rio de Janeiro , Brazil	September 1987
Melbourne , Australia	November 1988
Venice , Italy	September 1989
Santiago , Chile	November 1990
Washington, D.C. , United States of America	September 1991
London , United Kingdom	October 1992
Mexico City , Mexico	October 1993
Tokyo , Japan	October 1994
Paris , France	July 1995
Montreal , Quebec	September 1996
Taipei , Chinese Taipei	November 1997
Nairobi , Kenya	September 1998
Lisbon , Portugal	May 1999
Sydney , Australia	May 2000
Stockholm , Sweden	June 2001
Istanbul , Turkey	May 2002
Seoul , Korea	May 2003
Amman , Jordan	May 2004
Colombo , Sri Lanka	April 2005
Hong Kong , China	June 2006
Mumbai , India	May 2007
Paris , France	May 2008
Tel Aviv , Israel	June 2009
Montreal , Quebec	June 2010
Cape Town , South Africa	June 2011

* Conferences of the Inter-American Conference of Securities Commission, the forerunner of IOSCO.

Categories of Membership and Applications Procedure

There are three categories of membership: Ordinary, Associate and Affiliate.

Ordinary

The Ordinary membership category is open to statutory bodies with responsibility for securities markets regulation in their jurisdiction. If there is no statutory regulatory body in a jurisdiction, then a self-regulatory body (such as a stock exchange) from that jurisdiction will be eligible for Ordinary membership of the organization. Each Ordinary member is a member of the President's Committee and has one vote.



A securities commission, or a similar government body, that is not presently a member is eligible for ordinary membership of IOSCO. If there is no governmental regulatory body in a jurisdiction, a self-regulatory body (such as a stock exchange) from that jurisdiction is eligible for Ordinary membership of IOSCO. Applications for ordinary membership must include:

- > A brief description of securities regulation in the applicant's jurisdiction, including the bodies which exercise regulatory functions with regard to securities in that jurisdiction;
- > A translation of the primary securities legislation of that country in one of the official languages of the Organization (English, French, Portuguese and Spanish);
- > A Declaration, signed by the President of the applicant, that the body has received and accepts the present By-Laws and Resolutions adopted by the Presidents Committee.

Associate

Associate members are those regulatory bodies with responsibility for regulation within subdivisions of a jurisdiction where the national regulatory body is already an Ordinary member. Associate members are members of the Presidents Committee but have no vote and are not eligible for the Executive Committee.

If the national regulatory body of a country is already an ordinary member, an association that consists of the public regulatory bodies with jurisdiction in the subdivisions of that country, is eligible for associate membership. Any other eligible body with an appropriate responsibility for securities regulation is also eligible for associate membership.

Applications for Associate membership must include a description of the applicant and its mission.

Affiliate

The Affiliate membership category is composed of self-regulatory bodies, or international bodies, with an appropriate interest in securities regulation. Affiliate members are not members of the Presidents Committee, are not eligible for the Executive Committee and have no vote. The Affiliate members, which are SROs, are however members of the SRO Consultative Committee. An SRO, or an international body, with an appropriate interest in securities regulation, is eligible for Affiliate membership of IOSCO. Applications for Affiliate membership must include:

- > A description of the applicant and its mission;
- > A recommendation letter by the Ordinary member, or Ordinary members, of the applicant's country (if applicable).

A body will become an IOSCO member if its application is accepted by the Presidents Committee upon the recommendation of the Executive Committee.

All applications for membership must be sent to the Secretary General accompanied by the prescribed application fee of 10,100 Euros.

Financial Contribution of Members

IOSCO is financed by an annual contribution from each of its members. This is currently set at 10,100 Euros.

Further information about IOSCO can be found at www.iosco.org



Contact Details

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Independent Auditors' Report on the Financial Statements

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

We have audited the accompanying financial statements of the International Organization of Securities Commissions (hereinafter the "Organization"), which comprise the statement of financial position as at 31 December 2008, and the statement of comprehensive income, the statement of changes in members' funds and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Organization as at 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Auditores, S.L.

A handwritten signature in purple ink that reads "KPMG" followed by a stylized flourish.

Madrid, 31 March 2009

Financial Statements

STATEMENT OF COMPREHENSIVE INCOME

Year ended December 31, 2008

	2008	2007 (Restated *)
REVENUE		
Contributions from members	2,040,895	1,808,222
Annual conferences	120,000	120,000
Exchange gain	1,180	-
Other	95,148	83,138
Total revenue	2,257,223	2,011,360
EXPENSES		
Salaries and employee benefits	1,312,013	1,339,218
Rental and maintenance (note 11)	83,357	85,818
Travelling	201,113	190,112
Office supplies	16,176	20,479
Organization and follow up of meetings	56,840	47,250
Telecommunications	54,611	44,820
Delivery and communication	14,389	12,226
Printing and Annual Report	14,425	20,388
Computer	134,420	137,586
Professional fees	30,435	24,135
Educational programs	35,647	44,870
Miscellaneous	31,537	49,234
Exchange loss	-	17,692
Depreciation of capital assets (note 7)	76,676	73,307
Total expenses	2,061,639	2,107,135
Excess of revenue over expenses before tax (expenses over revenue)	195,584	(95,775)
Taxation	-	-
Excess of revenue over expenses net of tax (expenses over revenue)	195,584	(95,775)
Other comprehensive income	-	-
Total comprehensive income for the year net of tax (in euros)	195,584	(95,775)

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

STATEMENT OF FINANCIAL POSITION

As at December 31, 2008

	2008	2007 (Restated *)	2007 Opening Balance
ASSETS			
Current assets			
Cash (note 5)	422,227	393,018	248,109
Term deposits (note 6)	2,100,504	1,950,000	1,950,000
Accounts receivable	10,671	9,394	21,070
Prepaid expenses	4,027	4,772	3,365
	2,537,429	2,357,184	2,222,544
Capital assets (note 7)	92,488	145,042	155,354
Total assets	2,629,917	2,502,226	2,377,898
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities (note 8)	666,171	621,865	534,096
Contributions received in advance	150,235	262,434	130,100
Total liabilities	816,406	884,299	664,196
MEMBERS' FUNDS			
Total comprehensive income for the year net of tax	195,584	(95,775)	-
Unrestricted members' funds	1,617,927	1,713,702	1,713,702
Total members' funds	1,813,511	1,617,927	1,713,702
Total liabilities and members' funds	2,629,917	2,502,226	2,377,898

(in euros)

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

CHANGES IN MEMBERS' FUNDS

Year ended December 31, 2008

		2008	2007 (Restated *)
	UNRESTRICTED	TOTAL	TOTAL
Balance, beginning of year	1,617,927	1,617,927	2,129,844
Adjustments to opening balance related to Contractual staff commitments	-	-	(416,142)
Restated Balance, beginning of year	1,617,927	1,617,927	1,713,702
Total comprehensive income for the year net of tax	195,584	195,584	(95,775)
Balance, end of year	1,813,511	1,813,511	1,617,927

(in euros)

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

STATEMENT OF CASH FLOWS

Year ended December 31, 2008

	2008	2007 (Restated *)
OPERATING ACTIVITIES		
Total comprehensive income for the year net of tax	195,584	(95,775)
Depreciation of capital assets	76,676	73,307
Decrease (increase) in working capital items (note 4)	(68,425)	646,514
Adjustments to opening balance related to Contractual staff commitments	-	(416,142)
Net cash generated	203,835	207,904
INVESTING ACTIVITIES		
Purchase of REPO	(1,000,504)	-
Capital expenditures	(24,122)	(62,995)
Net cash used	(1,024,626)	(62,995)
Net increase (decrease) in cash and cash equivalents	(820,791)	144,909
Cash and cash equivalents, beginning of year	2,343,018	2,198,109
Cash and cash equivalents, end of year	1,522,227	2,343,018
CASH AND CASH EQUIVALENTS		
Cash	422,227	393,018
Term deposits	1,100,000	1,950,000
Total cash and cash equivalents	1,522,227	2,343,018

(in euros)

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

On behalf of the International Organization of Securities Commissions (IOSCO)



Greg Tanzer
Secretary General

1 Governing Statutes and Purpose of the Organization

The non-profit organization IOSCO (hereinafter “the Organization”), incorporated under a private act in Canada (L.Q. 1987, Chapter 143) sanctioned by the Quebec National Assembly, is an association of securities regulatory organizations. During 2001 the Organization changed its domicile to Madrid (Spain). It is recognized by the Spanish Government by means of the Third Additional Disposition of Law 55/1999.

2 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards and reflect early adoption of the 1 January 2009 amendments to IAS 1, Presentation of Financial Statements.

The financial statements are prepared in Euros.

Accounting estimates

The preparation of financial statements in accordance with International Financial Reporting Standards requires management to make estimates and assumptions that affect the amounts recorded in the financial statements and notes to financial statements. These 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.

Accounting modifications

During the current year the Organization modified the accounting treatment of certain staff contractual commitments. Termination benefits that are payable to IOSCO staff in accordance with their contractual terms have been recognized as an accrued liability. This modification has been applied retrospectively and the balances and figures for 2007 restated to provide consistency and to enable a direct comparison going forward.

This has resulted in the crystallization of a liability of € 435,484 in 2007. This is made up of the amount that accrued prior to 2007 (€ 416,142) and the amount that accrued during 2007 (€19,342). The former amount (€ 416,142) has been charged against member’s funds in 2007. The final outcome has been a negative adjustment of the opening balance of members’ funds to € 1,713,702 in that year. The latter amount (€ 19,342) has been added to salaries and employee benefits expenses for 2007, to total € 1,339,218. The result for 2007 after tax now shows a loss of € 95,775.

The effect of this modification in 2008 is an accrual of € 67,682 under salaries and employee benefits expenses.

3 Significant accounting policies

Revenue and cost recognition

Following IAS 18, section 28, member contributions are deferred when prepaid and recognised as income only upon accrual and receipt.

Contributions are denominated in Euros or US Dollars. Contributions denominated in US Dollars are accounted for in Euros at the rates of exchange prevailing at the transaction date. Differences arising on translation are recognized in the statement of comprehensive income.

Deferred revenue represents prepaid members contributions. Costs are recognised as an expense when incurred.

Cash and cash equivalents

The Organization’s policy is to present cash and temporary investments having a term of three months or less from the acquisition date, as cash and cash equivalents.

Capital assets

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

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	Straight-line	25%

Foreign currency translation

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 taken to profit or loss when they arise.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Euros at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the income statement.

4 Information Included in the Statement of Cash Flows

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

	2008	2007
Accounts receivable	1,277	(11,676)
Prepaid expenses	(745)	1,407
Accounts payable and accrued liabilities	(44,306)	(503,911)
Deferred revenue	112,199	(132,334)
Increases (decreases) in working capital	68,425	(646,514)

(in euros)

5 Cash

	2008	2007	2007 Opening
Cash in U.S. Dollars (US\$ 5,695 in 2008; US\$ 243,595 in 2007; US\$ 230,645 Opening 2007)	4,040	165,475	174,824
Cash in Euros	418,187	227,543	73,285
Total cash	422,227	393,018	248,109

(in euros)

There are no restrictions for the use of cash.

6 Term Deposits

	2008	2007	2007 Opening
1.85% term deposit. Expiration date: January 15, 2009	1,100,000	-	-
1.70% term deposit. Expiration date: December 18, 2009	1,000,504	-	-
3.70% term deposit. Expiration date: January 14, 2008	-	700,000	-
3.70% term deposit. Expiration date: January 28, 2008	-	1,250,000	-
3,35% term deposit. Expiration date: January 31 2007	-	-	1,950,000
Total term deposits	2,100,504	1,950,000	1,950,000

(in euros)

7 Capital Assets

	Furniture and fixtures	Computer equipment	2007 Total
At the lower of recoverable value and cost			
Balance, beginning of year	12,381	394,786	407,167
Additions	-	62,995	62,995
Disposals	-	(2,384)	(2,384)
Balance, end of year	12,381	455,397	467,778
Accumulated depreciation			
Balance, beginning of year	(3,716)	(248,097)	(251,813)
Depreciation	(2,132)	(71,175)	(73,307)
Disposals	-	2,384	2,384
Balance, end of year	(5,848)	(316,888)	(322,736)
Net as at December 31, 2007	6,533	138,509	145,042

(in euros)

	Furniture and fixtures	Computer equipment	2008 Total
At the lower of recoverable value and cost			
Balance, beginning of year	12,381	455,397	467,778
Additions	2,477	21,645	24,122
Disposals	-	-	-
Balance, end of year	14,858	477,042	491,900
Accumulated depreciation			
Balance, beginning of year	(5,848)	(316,888)	(322,736)
Depreciation	(2,301)	(74,375)	(76,676)
Disposals	-	-	-
Balance, end of year	(8,149)	(391,263)	(399,412)
Net as at December 31, 2008	6,709	85,779	92,488

(in euros)

8 Accounts payable and accrued liabilities

	2008	2007	2007 Opening
Professional services	25,540	11,802	10,222
Occupancy	58,500	57,500	54,000
Spanish Taxes and Social Security	29,292	42,465	30,383
Contractual staff commitments	503,166	435,484	416,142
Other	49,673	74,614	23,349
Total Accounts payable and accrued liabilities	666,171	621,865	534,096

(in euros)

9 Financial Instruments

Short-term financial instruments

Cash, term deposits, accounts receivable and accounts payable are financial instruments whose fair value approximates their carrying amount, given that they will mature in the short term and are not perceived to bear any significant credit risk.

10 Government Assistance

As part of the localization agreement in Madrid, IOSCO receives from the Spanish Authorities the right to use the 12 Oquendo premises free of charge, exclusive of non-structural maintenance expenses (electricity, water, elevator maintenance, etc) up to a maximum of € 70,501 for the year 2008. This amount will be adjusted annually by the corresponding Consumer Price Index. The total for non-structural maintenance expenses has not yet exceeded the above mentioned cap.

11 Rental and Maintenance

	2008	2007
Estimated Spanish Authorities' charges for non structural maintenance costs	58,500	57,500
Other external maintenance services	24,857	28,318
Total rental and maintenance	83,357	85,818

(in euros)

12 Subsequent Events

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

On behalf of the International Organization of Securities Commissions (IOSCO)



Greg Tanzer

Secretary General



**International Organization
of Securities Commissions**

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