



# Annual Report 2009

INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS



**IOSCO**

# IOSCO MEMBERS' 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; 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.



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## Report from the Chairman of the Executive Committee

**Jane Diplock AO**

➤ Chairman of the Executive Committee

**Building on key achievements, and taking into account lessons from the financial crisis, IOSCO proposes a revised strategic direction that will address the 21<sup>st</sup> century requirements of regulating global capital markets while reinforcing its role in the new global financial system.**

### IOSCO's Future Direction

Last year, the Executive Committee launched a review of IOSCO's strategic direction and agreed to a two-staged approach. The first stage consisted in examining the organization's role and key functions going forward, and following consultation, making related proposals for endorsement by its membership at the Annual Conference of June 2010. The second stage will consider any structural or operational adjustments required to best fulfill these functions, with related recommendations to be presented for endorsement by IOSCO's membership at the 2011 Annual Conference in Cape Town.

#### Strategic Proposals

The strong support received from members to the two rounds of consultation during the past twelve months have led the Executive Committee to propose a revised mission statement and a set of operational goals and priorities to guide IOSCO's activities in the next few years.

IOSCO's new proposed goals aim to: maintain and improve the international regulatory framework for securities markets via the setting of international standards; identify and address systemic risks to the fair and efficient functioning of markets; as well as strengthen its role within the international financial community in order to advance the implementation of its high-level *IOSCO Objectives and Principles of Securities Regulation* (IOSCO Principles).

To achieve these goals, IOSCO's operational priorities will focus on building members' regulatory capacity, supporting the development of the international en-

forcement and surveillance framework and ongoing development of international regulatory standards.

Strategic priorities include systematic implementation of the IOSCO Principles by its members and related training and education programs. They also include full implementation of the *IOSCO Multilateral Memorandum of Understanding concerning Consultation, Cooperation and the Exchange of Information* (IOSCO MMoU) by having all members with primary responsibility for securities regulation in their jurisdictions become full signatories, considering possible enhancements to the MMoU, and working with uncooperative and/or under regulated jurisdictions.

Other priorities include a systematic and periodic review of the IOSCO Principles, development of standards to deal with emerging risks and inadequate functioning of markets, and building an independent research capacity.

A further priority is enhancing IOSCO's representation in relevant global decision making forums and improving its liaison with other international financial standard setters and global bodies with a complementary mission. IOSCO will continue to strengthen communications with stakeholders, in particular with investors and bodies representing the industry.

Comments received from consultation with IOSCO's sister standards setting bodies, the Basel Committee on Banking Supervision and the International Association of Insurance Supervisors, as well as the International Monetary Fund, the World Bank and the Financial Stability Board (FSB) indicate support from stakeholders for the new strategic direction.

## Reform Program

IOSCO will require further resources and may also require a structural review to implement its revised operational priorities. The Executive Committee has emphasized the linkage between the strategic direction's content and funding and structural considerations.

A first internal consultation about funding options is underway. In the coming months and until the Annual Conference of 2011, the Executive Committee's Task Force on the Strategic Direction will continue to take the opportunity at various IOSCO committee meetings to update members on progress in the second stage strategic review work and invite feedback from IOSCO's various constituencies.

I take this opportunity to thank my fellow Executive Committee and Task Force members for their outstanding leadership in this exercise, and all our members for their constructive comments and contribution to this very important task.

## Strengthening the Global Financial System

IOSCO's new direction will reflect the key role IOSCO is called upon to play in the new global financial system and modernized architecture for international economic cooperation.

The crisis has created extraordinary momentum for reviewing regulatory issues and the entire international financial oversight architecture. IOSCO is the one global institution which can focus on the regulatory issues, and solutions, associated with capital markets. In today's complex, intertwined world, IOSCO has come to be seen as the voice of the world's securities watchdogs: its only global, democratically constituted, representational umbrella organization. Its key role is also reflected by providing input into the G-20 and FSB process.

As we slowly emerge from the global crisis, the organization is exploring new mechanisms for reaffirming and building confidence in the world's financial markets. This will allow IOSCO to further strengthen the global financial system through its continued shift from a forum with inspirational objectives to an increasingly operational body fit to address today's securities regulatory challenges.

## IOSCO's 2009 Activity

### Achievement of the MMoU Strategic Goal

One of IOSCO's greatest achievements is the IOSCO MMoU, which has demonstrably raised the standard of international enforcement of securities regulation. The IOSCO MMoU is the acknowledged global standard for



securities enforcement cooperation and a unique example of an international regulatory standard being implemented worldwide.

In 2005, IOSCO's membership resolved that all member jurisdictions should apply by 1 January 2010 to become a signatory to the IOSCO MMoU. This ambitious target has now largely been met: 96% of our 115 member regulators meet the requirements needed to become signatories to the MMoU or have made the necessary commitment to seeking the legislative changes that will allow them to do so.

IOSCO would have not been able to achieve this strategic goal without the tremendous support of the Regional Committee Chairs, the IOSCO General Secretariat and the IOSCO MMoU Screening Group, which continues its rigorous assessment of jurisdictions' ability to comply with the cooperation and enforcement requirements of the MMoU while providing the necessary expert advice to applicants as required.

By committing themselves to the full implementation of the IOSCO MMoU, member regulators provide an outstanding example of commitment to protecting the in-





tegrity of global capital markets and investors from the risk posed by cross-border market misconduct.

This continued commitment to cooperation and information exchange is a concrete example of securities regulators support for the G-20's aim of more sustained and systematic international cooperation and the promotion of market integrity.

### Contribution to Tackling the Global Financial Crisis

Since 2007, when IOSCO set up a Technical Committee Task Force on the Subprime Crisis, IOSCO has contributed enormously towards identifying and tackling concerns highlighted by and arising from the global financial crisis, including through its membership of the FSB.

IOSCO's contribution to this work over the past year is outlined by my colleagues chairing the organization's working committees, the Technical and Emerging Markets Committees.

IOSCO is the only international standard setter represented on the Financial Crisis Advisory Group (FCAG). The FCAG published its report and recommendations in July 2009 which it also communicated to the G-20 Leaders. The group was set up in December 2008 by the International Accounting Standards Board and the United States Financial Accounting Standards Board to advise the boards about standards setting implications of the global financial crisis and potential changes to the global regulatory environment.

The FCAG, in its July 2009 recommendations, highlighted the importance to financial stability of high quality accounting standards, that are faithfully applied and subject to rigorous independent audit, which are critical to restoring market confidence and ensuring economic

growth. The report sets out four principles for standards setting: effective financial reporting, limitations of financial reporting, convergence of accounting standards and standards-setter independence and accountability.

The group will meet later this year to review progress made on its recommendations. A review meeting in December 2009 led the group to reiterate the importance of establishing a single set of high-quality, globally convergent financial reporting standards, and communicated the result of its review to the G-20 Leaders.

Such standards are vital to the long term effectiveness of global financial markets, and therefore worldwide stability and sound economic growth and work on achieving them must continue in a spirit of independence and accountability.

### Tribute to Working Committees' Chairs

Before concluding, on behalf of the Executive Committee, I wish to thank our working committee chairs, Kathleen Casey and Guillermo Larrain at the helm of the Technical and Emerging Markets Committees respectively, for their leadership in advancing IOSCO's international standards setting mission.

I know my colleagues join me in wishing Guillermo Larrain, former Superintendent of the Chilean Superintendencia de Valores y Seguros, all the best for the future. Under his leadership the Emerging Markets Committee, through its work over the past two years, has contributed much to the debate on the global financial crisis from the perspective of emerging market regulators. IOSCO is grateful for his extraordinary energy and commitment to identifying and addressing regulatory challenges in emerging markets jurisdictions, which have contributed greatly to broadening IOSCO's international standard setting role.







## Report from the Chairman of the Technical Committee

**Kathleen Casey**  
> Chairman of the Technical Committee

The period June 2009 through June 2010 was an extraordinarily active and productive period for the IOSCO Technical Committee and its members. Through its members – which encompasses the world’s major financial centers, now including the market regulators from Brazil, China and India – the Technical Committee aims to promote investor confidence in securities markets and support market stability through strengthening the financial system as a whole, while fostering more efficient and transparent capital markets. As the preeminent international forum for securities regulation, IOSCO continues to play a key role in shaping and informing regulatory reform efforts around the globe.

By analyzing and addressing potential weaknesses as highlighted by the recent financial crisis, new IOSCO recommendations and guidelines were developed that enhanced the existing global system of surveillance and regulation of securities markets and products. The Technical Committee also progressed many of IOSCO’s key regulatory priorities through its support for the G-20 and participation within other organizations, such as the Financial Stability Board (FSB), the Joint Forum for Financial Conglomerates and the Monitoring Board of the IASCF, and through collaboration with the Basel Committee on Banking Supervision and the Committee on Payment and Settlement Systems (CPSS). In so doing, IOSCO has offered its unique perspective and independent voice for front-line standard setting securities regulators.

These collaborative efforts have helped to accomplish a number of key regulatory recommendations arising from the financial crisis, as well as those identified and undertaken pursuant to earlier IOSCO work streams. For example, IOSCO undertook a number of initiatives in response to the Technical Committee’s Subprime Task Force report (published in May 2008), such as analyzing the underlying causes of the financial crisis, examining implications for international capital markets, and issuing recommendations that address the issues facing securities regulators in key areas.

This Annual Report of the Technical Committee provides additional details about IOSCO’s activities and accomplishments during the period in:

- > Enhancing coordination and cooperation among IOSCO members;
- > Strengthening IOSCO members’ supervision and oversight capability;
- > Responding and providing input to the G-20, the Financial Stability Board, and other international organizations; as well as
- > Focusing efforts on new and emerging issues.

### Enhancing IOSCO Member Coordination and Cooperation

A number of initiatives during the reporting period specifically focused on raising international standards in relation to international cooperation and coordination amongst IOSCO members – in relation to both supervisory and enforcement oversight. As much of this work involves significant cross-border issues, it undoubtedly will be complemented by one of IOSCO’s newest efforts, launched in June 2009, to further enhance supervisory cooperation.

**Supervisory Cooperation:** Recognizing the increasing need to collaborate in the oversight of firms and markets that are increasingly global, the Technical Committee, in June 2009, established a new Task Force on Supervisory Cooperation to develop principles on cooperation in the supervision of markets and market participants whose operations cross international borders. This initiative will



prove particularly relevant to IOSCO's ongoing work related to broker-dealers and exchanges as well as hedge funds, credit ratings agencies and other elements of the securities markets infrastructure.

**Enforcement Cooperation:** IOSCO completed a milestone this January when 96% of the eligible membership of 115 securities regulators met the requirements needed to become signatories to the *IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information*, or have made the necessary commitment to seeking national legislative changes to allow them to do so in the near future.

This represents a virtually complete commitment on the part of the international regulatory community to meet the minimum expected of regulators with respect to cooperation in the enforcement of securities laws.

### **Strengthening IOSCO Members' Supervision and Oversight Capability**

The consideration of issues arising from the financial crisis, and actions taken in response thereto, strengthened IOSCO members' supervision and oversight capability. In particular, IOSCO's work on improving regulation in the areas of credit rating agencies (CRAs), hedge funds, over-the-counter (OTC) derivatives, securitization, short selling, and other areas highlighted by the financial crisis

continues to guide and support real-time policymaking. IOSCO reports and other documents identified specific action its members can take to improve their markets, increase investor protections, and identify and address systemic risk. The consideration of these critical regulatory issues was informed by the perspectives of a range of key stakeholders. As part of IOSCO's regular consultative procedures, IOSCO sought public input through the publication of consultative reports. IOSCO members benefited in the development of various recommendations and guidelines from the views of the various market participants that IOSCO members regulate and protect, as well as the perspectives of interested members of the public.

**Credit Rating Agencies:** At an early stage of the crisis, the IOSCO Technical Committee assessed the role of CRAs in the development of the financial crisis and identified and implemented changes to IOSCO's Code of Conduct Fundamentals for Credit Rating Agencies to address a number of concerns.<sup>1</sup> The Technical Committee subsequently reported on Implementation of the IOSCO CRA Code of Conduct in March 2009, assessing the degree to which CRAs have adopted codes of conduct that reflect the updated provisions of the IOSCO CRA Code.

Also in 2009, the Technical Committee established a new Standing Committee on Credit Rating Agencies (TCSC6). TCSC6 is now charged with: regularly discussing, evaluating and considering regulatory and policy initia-

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[1] These changes were published in a report in May 2008.

tives vis-O-vis CRA activities and oversight in an effort to seek cross-border regulatory consensus and establish international standards and best practice through such means as the IOSCO CRA Principles and the IOSCO CRA Code of Conduct; and facilitating regular dialogue between securities regulators and the credit ratings industry, such as monitoring CRA implementation of the Code of Conduct.

**Unregulated Financial Entities:** In June 2009, the Technical Committee issued a final report that outlined the potential risks and issues posed by the hedge fund sector and considered possible mitigating regulatory action. The report set forth high-level principles for hedge fund regulation, including requirements for mandatory registration, ongoing regulation and provision of information for systemic risk assessment purposes. The principles also call for regulators to cooperate and share information to facilitate efficient and effective oversight of globally active hedge fund managers and hedge funds. Agreement on these principles is a major step towards achieving a comprehensive and coherent regulatory response globally to the potential risks posed by the hedge fund sector.

At a time when national regulators and legislators are in the process of reviewing their respective domestic regimes, these IOSCO principles set a common benchmark. IOSCO intends to continue its work in this area; in furtherance of this work, in early 2010, the Technical

Committee approved a template for the global collection of hedge fund information, which will facilitate the collection and exchange of consistent and comparable data amongst regulators and other competent authorities for the purpose of facilitating international supervisory cooperation in identifying possible systemic risks in this sector.

**Unregulated Markets and Products:** In September 2009, the Technical Committee's Task Force on Unregulated Financial Markets and Products published its final report, which contained regulatory recommendations to assist financial market regulators to introduce greater transparency and oversight in securitization and credit default swap (CDS) markets. In regards to securitization, the report made recommendations to address the incentives of market participants, risk management practices, issues relating to disclosure and investor suitability. In connection with CDS markets, the report made recommendations relating to counterparty risk, including measures to facilitate the establishment and operation of central counterparties, standardization, and market transparency. The Technical Committee is currently identifying further work to be considered regarding implementation of these recommendations.

**Short Selling:** The Technical Committee's Task Force on Short Selling was formed in the midst of market turmoil in the fall of 2008 – a time when securities regulators in many jurisdictions around the world were taking emer-





agency measures to curb abusive short selling. Given the different approaches to regulation of short selling, the Task Force was tasked with developing high-level principles for the effective regulation of short selling. The Short Selling final report, published in June 2009, outlines four principles IOSCO believes should guide regulators in the formation of a short selling regulatory program. These principles are designed to assist regulators in their consideration of a regulatory regime for short selling. In making its recommendations, IOSCO was conscious of the need to minimize impediments to legitimate short selling, securities lending, hedging and valid market strategies that provide liquidity.

A number of Technical Committee jurisdictions are currently involved in national consultations regarding short sales regulation, and the Task Force is preparing a progress report providing updates on the developments of short sales regulation in Technical Committee jurisdictions. This report will also address areas of convergence in short sales regulation, and will shortly be presented to the Technical Committee.

### **IOSCO's Role and Engagement in Other International Fora**

IOSCO representatives also continued to provide guidance, perspective and expertise to other international

fora, including the G-20 and the FSB, directly and through collaborative efforts.

**Joint CPSS-IOSCO Working Group:** Over the past year, various supervisors and regulators have gained first-hand experience of some of the challenges in applying the *Recommendations for Central Counterparties (RCCPs)*<sup>2</sup> to proposed arrangements for OTC credit derivatives transactions such as CDS, particularly in the areas of valuation models. On 12 May 2010, the Committee on Payment and Settlement Systems (CPSS) and the Technical Committee issued two consultation reports: *Guidance on the application of the 2004 CPSS-IOSCO Recommendations for Central Counterparties (RCCP) to OTC derivatives CCPs* and *Considerations for trade repositories in OTC derivatives markets*.

The first report presents the guidance tailored to central counterparties (CCPs) clearing OTC derivatives products. In light of the experience during the recent financial crisis, authorities in many jurisdictions have set out important policy initiatives encouraging greater use of CCPs for OTC derivatives markets. Recently, several CCPs have begun to provide clearing and settlement services for OTC credit default swaps. Because greater use of CCPs for OTC derivatives will increase their systemic importance, it is critical that the risk management at these CCPs be robust and comprehensive; moreover, because of their complex risk characteristics and

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[2] See Joint CPSS-IOSCO Recommendations for Central Counterparties, available at: <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD176.pdf> (November 2004).





market design, clearing OTC derivatives products safely and efficiently through a CCP raises issues that clearing of exchange-traded/cash products does not. As these issues were not fully discussed in the 2004 report of the existing RCCPs, the Technical Committee and the CPSS have identified such issues and, with the aim of promoting consistent interpretation, understanding and implementation of the RCCPs across OTC derivatives CCPs, developed international guidance tailored to the unique characteristics of OTC derivatives products and markets.

The second consultation report presents a set of considerations for trade repositories (TRs) in OTC derivatives markets and relevant authorities overseeing TRs. The crisis highlighted a severe lack of market transparency in OTC derivatives markets. As an important step in addressing this issue, OTC derivatives market participants, with the support of the regulatory community, are committed to establishing and making use of TRs.<sup>3</sup> In light of the growing importance of TRs in enhancing market transparency and supporting clearing and settlement arrangements for OTC derivatives transactions, the Technical Committee and CPSS have developed a set of factors that should be considered by TRs in designing and operating their services and by relevant authorities in regulating and overseeing TRs.

These two sets of high-level guidance are complementary and constitute an important response to the recent financial crisis. In this regard, IOSCO and the CPSS have launched a joint comprehensive review of their existing standards for financial market infrastructures such as payment systems, securities settlement systems and central counterparties, with a view to strengthening them where appropriate.<sup>4</sup> Though the financial market infrastructures generally performed well during the recent financial crisis, and did much to help prevent the crisis becoming even more serious than it actually was, there are lessons to be learned from the crisis (as well as from the experience of more normal operation in the years that have passed since the standards were originally issued). This review is integral to FSB efforts to reduce the risks that arise from interconnectedness in the financial system and its initiatives to address systemically important financial institutions. The two committees will coordinate with other relevant authorities and communicate with the industry, as appropriate, as the work progresses, with the aim of issuing a draft of all the revised standards for public consultation by early 2011.

**OTC Standardization Working Group:** The FSB has more recently requested that IOSCO and the CPSS, in con-

junction with other organizations and selected authorities, undertake a project designed to help strengthen the infrastructure for OTC derivatives transactions. Pursuant to the G-20 Leaders' Statement from the September 2009 Pittsburgh Summit, this working group has been formed to draft a note on how regulators can promote the greater use of standardized OTC derivative products and develop a clear process to implement, at a global level, the clearing and exchange or electronic trading of OTC derivatives. Representatives from IOSCO's Technical Committee, the CPSS, and the European Commission co-lead this effort, and aim to deliver a note later this fall, prior to the G-20 Summit in Korea.

**Solvency of Market Intermediaries/Consumer Protection:**

The events surrounding certain insolvencies of systemically important market intermediaries during the financial crisis demonstrated how important it is for securities regulators to understand the insolvency regimes of foreign countries as they apply to foreign affiliates of the intermediaries that they regulate. Based on these experiences, the Technical Committee's members determined to examine issues relating to access by customers to funds held overseas. Understandably, knowledge as to the consequences of the insolvency of a securities intermediary is important for a fully informed and appropriately regulated market, and the Technical Committee has undertaken to survey existing insolvency laws, rules, and regulations applicable to securities intermediaries. The examination will seek to determine how, if at all, such regimes protect client securities, associated margin collateral and other related money or property in the case of an insolvency of such an intermediary and will help to inform the FSB's "too big to fail" initiative.

**IASC Foundation Monitoring Board:** In addition to its active representation in the FSB, the Technical Committee is a founding member of the five-member Monitoring Board of the International Accounting Standards Committee (IASC) Foundation. Created in 2009, the Monitoring Board was established to enable authorities responsible for accounting standards used in their respective markets to more effectively discharge their mandates regarding investor protection, market integrity and capital formation. Technical Committee Vice-Chair Hans Hoogervorst serves as Chairman of the Monitoring Board. Important oversight activities of the Monitoring Board in 2009 included the approval of IASC Foundation Trustee appointments and the issuance of a statement on *Principles for Accounting Standards and Standard Setting*, in support of the IASB's independent standard setting function as it addresses issues raised in the financial crisis.

[3] A trade repository in OTC derivatives markets is a centralized registry that maintains an electronic database of open OTC derivative transaction records.

[4] These include the 2001 *Core principles for systemically important payment systems*; the 2001/2 *Recommendations for securities settlement systems*; and the 2004 *Recommendations for central counterparties*.

## Ongoing Work of the Technical Committee

The Technical Committee's work is not focused solely on responses to events that have happened in the past; indeed, it strives to anticipate events and issues that may arise in the future. In this regard, the Technical Committee and its Standing Committees and Task Forces continue to examine a number of important initiatives, including those outlined below.

**Valuation and Accounting Issues:** IOSCO is providing input to the IASB on matters related to fair value, off-balance sheet and other crisis-related topics during the course of the IASB's ongoing standard setting work. IOSCO is also planning a review of internal controls of intermediaries in securing adequately skilled professionals to model fair valuation in illiquid market conditions.

**Issuer Transparency and Investor Due Diligence:** IOSCO has published a Final Report on *Principles for Periodic Disclosure by Listed Entities* (February 2010), which makes use of some of the Implementation Standards for the FSB Principles for Sound Compensation Practices. IOSCO has also published a Final Report on *Disclosure Requirements for Public Offerings of Asset Backed Securities* (April 2010). IOSCO published a Final Report on *Good Practices in Relation to Investment Managers' Due Diligence When Investing in Structured Finance Instruments*, in July 2009 and a Final Report on the *Protection of Minority Shareholders in Listed Issuers* in June 2009.

In addition, the Standing Committee on Regulation of Secondary Markets (SC2), in consultation with the financial services industry, is finalizing a report on the viability of a secondary market reporting system for different types of structured finance products in light of the nature of these products, including a cost benefit analysis.

**Firm Risk Management and Prudential Supervision:** The Standing Committee on Regulation of Market Intermediaries (SC3) is currently conducting a survey and review of liquidity risk management at securities firms and SC3 is also conducting a survey to obtain information from major intermediaries that held certain structured finance products (SFPs), in or around 2006, concerning their internal controls as they relate to marking to market the value of these assets. The survey will also seek the views of firms concerning the viability of the traditional independent investment banking model in light of the financial crisis that developed after 2006.

**Commodity Futures Markets:** At their 2008 Summit, G-8 Leaders looked to IOSCO to undertake a project on commodity futures markets focusing on energy related

contracts and the potential for manipulation of the derivatives or spot market to affect sound price formation for these commodities. In September 2009, the G-20 looked to IOSCO to increase transparency in the oil markets by encouraging OTC oil data reporting, combating market manipulation and publishing more disaggregated data. IOSCO reconstituted its Commodity Futures Markets Task Force for this purpose and is working with the Bank for International Settlements (BIS) to analyze available data. The Task Force is encouraged by members' power to monitor the markets, take enforcement action where appropriate, and share information for these truly global markets.

Looking forward, the Technical Committee will continue to contribute significantly to initiatives to promote more resilient and transparent markets while collaborating on regulatory responses to the challenges anticipated or posed by an increasingly global financial market for capital.





## Report from the Chairman of the Emerging Markets Committee

**Guillermo Larrain**

➤ Chairman of the Emerging Markets Committee

Since the beginning of the financial crisis the importance of effectively capturing and communicating the perspectives of emerging markets and incorporating those viewpoints into the development of securities markets policy, and in any action plans to combat the crisis, has been repeatedly stressed by IOSCO's Emerging Markets Committee (EMC). The Financial Stability Board (FSB) has always supported the EMC in this respect, which was reinforced at the meeting of G-20 Finance Ministers and Central Bank Governors on March 14, 2009 in London. At this meeting the necessity of reforming major standard setting bodies to include more emerging economies was addressed, in order to ensure they more adequately reflect the realities of the world economy with a view to increasing these bodies' legitimacy and effectiveness.

IOSCO showed early leadership on this issue by inviting several members of the EMC to join its Technical Committee (TC), namely Brazil, China and India. However, these countries have maintained their link with the EMC, because the topics being dealt with in the EMC continue to be of relevance to them and they can share their experience of the transition in their regulatory approaches due to changes in their markets. To underscore the importance of the necessity of incorporating emerging markets views in global regulatory initiatives, the EMC wrote to the FSB underscoring the need to take account of these views within the Supervisory Colleges regulating large complex financial institutions. A further letter was sent to the G-20 Leaders highlighting the impact of the crisis on emerging markets, and underlining the importance of closer cooperation and coordination between the advanced and developing markets.

In relation to the EMC Chairman's Crisis Task Force, its membership was open to all EMC members and was chaired by myself, in my role as EMC Chairman, and Mrs. Zarinah Anwar, Chair of the Malaysian Securities Commission and Vice Chair of the EMC. The work of the Task Force was carried out in accordance with a mandate document dated December 12, 2008. In designing and adopting the mandate of the Task Force, it was agreed that the most effective mechanism to collect feedback from EMC jurisdictions would be through a Survey Questionnaire that could be circulated and responded to in electronic form approximately every 6 months.

The survey was broken into two sections, with the questions dealing with current and future regulatory issues being taken to be permanent questions to keep track of developments in the EMC members (which can be updated at agreed intervals) and then a number of topical questions specifically on the impact of the crisis on members and their responses to it.

The 1<sup>st</sup> EMC Survey on the Impact and Responses of Emerging Markets to the Financial Crisis was circulated to all member jurisdictions between December 11, 2008 and January 23, 2009. 38 jurisdictions responded to the Survey and the results are available in the EMC Report *The Impact on and Responses to the Financial Crisis* that was published for consultation on June 24, 2009 and is available on the IOSCO website.

In accordance with the timelines set out in the Mandate of the Task Force, a final report on the 1<sup>st</sup> survey results and the impact of the financial crisis on emerging markets was presented at the Annual Conference in Tel Aviv, June 8-11, 2009.

In circulating the Survey to all EMC members, the intention was to collect as many responses from emerging markets with as wide a variety as possible in terms of the size of market capitalization and GDP to draw meaningful survey results. Indeed, the jurisdictions that responded to the survey represented roughly 70% of the emerging world GDP.



The 2<sup>nd</sup> EMC Survey on the Impact and Responses of Emerging markets to the Financial Crisis was circulated to all member jurisdictions between July 15, 2009 and September 11, 2009. The survey results were presented at the EMC Bucharest Meeting on November 5, 2009, where members agreed to carry out these surveys on an annual basis.

According to the agreement of the EMC Bucharest Meeting, the 3<sup>rd</sup> survey has two objectives:

- > To re-circulate the survey questions within the agreed one year intervals to collect further information on the current trends in regulatory and supervisory priorities of EMC members; and
- > To collect supplementary information on areas for further work identified in the mandate document.

As we stressed in the concluding remarks of the survey, that although the financial crisis did not origi-

nate in the emerging world and the majority of financial institutions in the emerging markets did not present indications of financial stress in the first phase of the crisis, the effects of the financial crisis are nonetheless taking their toll on emerging market jurisdictions, particularly in the form of macroeconomic shocks and stresses. Therefore, emerging markets regulators are now dealing with the downstream effects of the economic impact on financial markets and the coordinated global response will have to include the views of, and issues affecting, EMC member jurisdictions.

Additionally, the EMC has actively contributed to the work of the organization through my participation as EMC Chairman in the IOSCO Executive Committee and Technical Committee, especially in the development of the Strategic Direction Task Force and the policy debates that have taken place there. This includes participation in the Three Chairs Committee, which promotes information exchange between different jurisdictions under the auspices of the IOSCO MMoU.





Likewise, during 2009 the EMC launched a new Task Force on Securitization, which has assessed the use of this process in emerging markets jurisdictions in order to develop measures to be adopted to promote the development of this instrument, taking into account the lessons learned from the crisis. This Task Force is chaired jointly by SEBI of India and the CNBV of Mexico in cooperation with the International Monetary Fund (IMF). The final results of this project will be presented at the IOSCO Annual Conference in Montreal in June 2010.

The EMC Advisory Board has also approved the idea presented to create a new Task Force for studying and analysing the OTC markets, which is led by Turkey with the preliminary results to be presented in Montreal, and to create another Task Force for developing the bond market in emerging markets jurisdictions. The latter will be carried out together with the World Bank.

Among the other initiatives, it was approved that joint seminars will be carried out with the IMF to assist supervisors to enable them to carry out Risk Based Supervision, this project was developed with the help of FINRA (Financial Industry Regulatory Authority). The first training seminar was held in Costa Rica, with the help of the IOSCO Inter-American Regional Committee, and the second regional seminar will be held in Europe.

The EMC has also participated in the Monitoring Board of the International Accounting Standards Committee Foundation (IASCF), whose main objective in relation to the International Accounting Standards Board (IASB) is to monitor at international level the organization's public accountability.

#### **Progress made by EMC members in meeting the requirements of the MMoU**

Following the completion of the project to ensure that all IOSCO member jurisdictions had signed onto Appendix A of the MMoU, or committed to making the necessary changes to enable them to do so, the MMoU now contains 35 signatories from the EMC, with 13 members having signed during the last year. Additionally, 34 EMC jurisdictions are listed on Appendix B, versus only 18 jurisdictions last year. I am greatly heartened by the progress made, and the commitment shown, by EMC members in support of this important strategic goal.

#### **Training programs organized for emerging markets memberse including joint event with the SROCC**

The following seminars and training programs were organized for EMC members over the last 12 months and include the following highlights:

- > *ITF Assessors Workshop*  
An Assessors Workshop organized by the Implementation Task Force, with the support of SEBI, India in Mumbai. It was originally scheduled for 2-4 December 2008, but was rescheduled to February 25 – 27, 2009;
- > *IOSCO / IFIE Investor Education Conference*  
A Joint Investor Education Conference of IOSCO and the International Forum for Investor Education (IFIE) took place from 2-3 March, 2009 in Washington D.C., U.S.A. The goal of the conference was to determine the best ways to establish new investor education programs and to strengthen already existing programs;
- > An IOSCO MMoU Workshop hosted by the Office of International Affairs and the Miami Regional Office of the U.S. Securities and Exchange Commission (SEC) took place in Miami, Florida from 25-26 March, 2009;
- > A Seminar Training Program 2009 – “Examination, Investigation, and Litigation of Insider Trading and Market Manipulation Cases in Securities Regulation” was held in Madrid from 27-30 October, 2009;
- > The 10<sup>th</sup> Emerging Market Program (EMP), 24-30 October, 2009 in Kuala Lumpur, Malaysia;
- > An AMERC Seminar Training Program, “Examination, Investigation and Litigation of Securities Sales Practice Violations”, 1-3 December, 2009, in Abuja, Nigeria; and
- > A Risk Based Supervision Workshop – “Rethinking Risk Based Supervision: Lesson from the Crisis”, 26-29 January, 2010, in San Jose, Costa Rica.

**How the EMC will look to develop following changes in its membership**

Following the move of Brazil, China and India from the EMC to join the TC, these members indicated their intention to continue collaborating with the Emerging Markets Committee. Additionally, the EMC has invited Mexico to collaborate on its working agenda.

Emerging markets have learned 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.





## Report from the Chairman of the SRO Consultative Committee

### Yoshio Okubo

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

**The SRO Consultative Committee (SROCC) was established in 1989 as a forum of IOSCO's affiliate members which have self-regulatory roles and functions. The SROCC contributes to regulatory policy development through the expertise and input provided by its members and related parties, and comprises a total of 65 IOSCO affiliate members, representing developed and emerging securities and derivatives markets from around the world.**

The turmoil in the global financial markets has highlighted the roles and importance of self-regulatory organizations in many jurisdictions. Many SROCC members are actively engaged in the review of their mandates and operations in response to the overall regulatory reform in coordination with government regulators and market stakeholders. During this period, the SROCC has continued to provide a pivotal framework for self-regulatory organizations to share information about their individual regulatory activities and experiences with a view to strengthening the underpinnings of capital markets around the globe.

There is considerable diversity in the regulatory roles and responsibilities within the SROCC membership. Various models of self-regulation exist and the scope of self-regulation varies across jurisdictions. Nevertheless, in the stressful and rapidly changing regulatory environment, SROs augment regulatory resources in many important ways, including requiring observance of standards that may go beyond government regulation, establishing rules, codes of conduct, standard documentation and other practices and permitting quicker and more flexible responses to market conditions. The role of SROs in the area of arbitration and dispute resolution has also become more important in the wake of the market turmoil.

The SROCC has three working groups: the Working Group on Self-Regulation (WG-SR), the Ahead-of-the Curve Working Group (ATC-WG), and the Regulatory Staff Training Working Group (RST-WG).

During the past year, the SROCC held two meetings: the annual meeting during the IOSCO Annual Conference in Tel Aviv in June 2009 and the mid-year meeting in Rotherwick, the United Kingdom in January 2010. A

training seminar for the regulatory staff of the SROCC membership and emerging markets regulators was held to coincide with its mid-year meeting in the United Kingdom, which was co-organized by the SROCC and the Emerging Markets Committee, supported by the International Capital Market Association.

### Reviewing Roles of Self-regulation

The SROCC has continued to examine the roles and extent of self-regulation in securities markets. The WG-SR completed a comprehensive survey on the nature and extent of self-regulation in the jurisdictions of SROCC members. Many different forms of self-regulation currently exist for securities markets, including industry self-regulatory organizations with statutory authority, exchange self-regulatory frameworks and private associations that define and encourage adherence to standards of best practice among its participants.

The volatility in the financial markets has been a catalyst for all participants in and around the financial markets to explore what lessons we can learn from the market turmoil. Indeed, recent events made clear that irrespective of the form that SROs take, they all remain focused on IOSCO's three core objectives:

- > taking actions that protect investors;
- > ensuring that markets are fair, efficient and transparent; and
- > reducing systemic risk.

Among other things, SROs provide expertise and practical experience that contribute to the development



and implementation of effective regulatory policies. SROs also contribute to increased market efficiency by expanding regulatory resources while they can, and do, extend beyond enforcing legal standards to adopting and enforcing ethical standards.

In this context, the SROCC also reviewed a number of contributions that SROs were making to the regulatory framework in their respective jurisdictions, in the broad context of strengthening the functions of capital markets in the wake of the financial crisis. They included measures taken in the areas of enhancing transparency in the commercial paper and asset backed securities markets, strengthening the oversight of OTC derivatives markets, upgrading due diligence practice guidance, strengthening risk management processes, the creation of the office of whistleblower by senior staff to expedite the review of high-risk tips and ensure a rapid response and the strengthening of inspection and investigative staff, among others. Specific examples of these initiatives were shared by the relevant IOSCO committees and task forces.

The SROCC also had the opportunity to be briefed about the activities of the World Bank Group on its ongoing study on roles, functions and characteristics of SROs in the world securities markets. The World Bank expressed its wish to explore the possibility of collaboration with

the SROCC in planning and/or implementing policy advice and technical assistance projects for emerging market countries. The SROCC intends to pursue ways to strengthen collaboration with the World Bank Group and other institutions in this area.

### **Collaborating with Government Regulators**

In parallel with the development of global regulatory reform, the SROCC exchanged information on and discussed the initiatives that various members had undertaken in their jurisdictions in light of the financial reform initiatives arising from the G-20 meetings and the Financial Stability Board (FSB) and other international bodies. During its annual and mid-year meetings, the Committee benefitted from the reports from the Executive Committee, the Technical Committee (TC), the Emerging Markets Committee (EMC), as well as the IOSCO Secretary General and Senior Advisor. It also received reports from the chairs of the TC's Standing Committees (TCSCs) and Task Forces, and discussed the work recently completed by the TCSCs, their planned work programs, and ways to strengthen the practical cooperative interface with the SROCC.

The SROCC invited Mr. Eddy Wymeersch, Chairman of the Committee of European Securities Regulators (CESR), to its annual meeting as a guest speaker. He







delivered a presentation on the ongoing global regulatory reform, focusing particularly on the European Union's regulatory developments. The SROCC followed up this dialogue with CESR by inviting Mr. Carlo Comporti, Secretary General, CESR, to speak at its mid-year meeting. Mr. Comporti briefed the SROCC members on: organizational changes in European securities regulation; some planned measures to enhance transparency and risk management in the OTC derivatives markets; schemes to prevent systemic risks, short-selling regulations; enhanced regulations on credit rating agencies; and the need to increase transparency in dark pools and flash orders.

SROs' role of augmenting regulatory responses is becoming increasingly important based on their proximity to the market, allowing SROs to be responsive to market developments in a quick and flexible way. In this regard, the ATC-WG, whose primary objective is to share information on emerging issues, is an important vehicle to help SROs explore best practices or detect potential regulatory issues at an early stage. At the annual meeting, the ATC-WG discussed Suitability Requirements and Product Due Diligence because products evolve rapidly. The ATC-WG also exchanged information about Short Sale Restrictions in view of the bans imposed in many markets on short sales during the financial crisis, sharing its analyses of the impact of the bans. At the mid-year meeting, the ATC-WG addressed other emerging issues, including those related to target dates funds, life settlements, buy-in procedures on defaulted trades, regulatory issues concerning the use of social media by intermediary firms, market structure

issues (including dark pools, flash orders and direct electronic access), regulatory concerns regarding new products (high leveraged ETFs, contracts for differences, and foreign exchange trading), regulations on OTC derivatives and private equity funds.

The SROCC continues to exchange information on the emerging regulatory issues to enable members to identify and respond to them quickly wherever possible in their own jurisdictions in order to protect investors and market integrity as well as contribute to financial stability.

#### **Training Regulatory Staff**

Training regulatory staff is one of the key priorities of the SROCC in order to ensure that SRO regulatory staff can retain and enhance their ability to identify emerging regulatory issues and address them effectively and efficiently. The SROCC, through the RST-WG, is committed to assisting the staff of SROCC members in understanding a number of regulatory requirements and related inspection practices. At the annual meeting, the RST-WG reviewed the first training seminar that was held in Washington, D.C. in December 2008 and conducted the second training program in the UK in January 2010.

Co-organized by the Emerging Markets Committee, the SROCC held the second face-to-face training seminar in the UK at Rotherwick and Reading from 11-13 January 2010. Supported by the International Capital Market Association (ICMA), the seminar was attended by 58 participants from EMC and SROCC member organizations in 22 jurisdictions covering all



the continents. Presentations were made by speakers from a variety of regulatory authorities and SROs, including: AMBIMA, BSM and the CVM from Brazil; the AMV of Colombia; the FSC of Chinese-Taipei; the Egyptian Exchange; ICMA; SEBI of India; JSDA of Japan; and FINRA from the United States. The participants had active discussions, based on these presentations, focusing on Preventing Unfair Trading, Market Surveillance, Clearance and Settlement, and Product Overview. All of the sessions were conducted referring to the relevant articles of the IOSCO Objectives and Principles of Securities Regulation (IOSCO Principles). On the second day of the seminar, participants used the trading simulation facility at the ICMA Center in Reading in an effort to improve regulatory skills to detect dubious trading activities.

Following the training seminar, the SROCC held its mid-year meeting in Rotherwick on January 14, 2010. Based on the appraisal of the training seminar including on its structure and topics, the SROCC agreed to continue this sort of training activity and agreed to hold the next seminar in Rio de Janeiro in November 2010.

### **SROCC's Future Work Program**

From the perspective of regulators close to the market, the SROCC will continue to work actively with the relevant IOSCO committees and groups and relevant market stakeholders with the aim of contributing to the achievement of the IOSCO Principles.

In light of the recent market turmoil, the SROCC is planning to further exchange information regarding initiatives and measures taken, or being considered, by member organizations, focusing on the roles to be played by SROs in strengthening the investor protection, market integrity and financial stability. The SROCC intends, in Montreal and at other meetings, that its members will continue to discuss the issues that it should tackle with a view to increasing transparency and enhancing the risk management process in the markets, thereby reflecting the lessons from the financial crisis.

The SROCC plans to hold its annual meeting during the IOSCO Annual Conference in Montreal in June 2010 and its mid-year meeting and training seminar in Rio de Janeiro in November 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 made by the continuing global financial crisis. Simultaneously, we reached a key milestone in the implementation of *IOSCO's Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information* (IOSCO MMoU), and have commenced a review of IOSCO's Strategic Direction for the next five years.

The past year's achievements at the General Secretariat level can be attributed to the secretariat staff, including our secondees, who have continued to provide invaluable technical, strategic and administrative support to the working committees and task forces.

## IOSCO's Strategic Direction

The demand for IOSCO's policy and technical input from outside bodies, has risen markedly during 2009. As a member of the Financial Stability Board (FSB), IOSCO actively participates in the policy and technical discussions aimed at coordinating the global response to the financial crisis and by providing input on behalf of global securities regulators. IOSCO is a member of the FSB Plenary, the Steering Committee, the Standing Committees on Standards Implementation and Supervisory and Regulatory Cooperation, and the Experts Group on Non Cooperative Jurisdictions.

IOSCO's key policy contributions within the FSB framework has been through the development of new agreed standards of regulation for hedge funds and credit rating agencies, as well as recommendations for improved regulation of securitized products and credit default swaps markets. At a more practical level, IOSCO has been contributing its expertise in improving international standards of cooperation in enforcement and in conducting assisted assessments of members' compliance with the IOSCO Objectives and Principles of Securities Regulation (IOSCO Principles). IOSCO also participated in the FSB Working Group which

developed the FSB's principles and guidelines on compensation, with a particular focus on the role of disclosure in obtaining compliance with the principles.

Looking forward, and building on the success of articulating and pursuing a strategic direction from 2005 to 2010, IOSCO has embarked on a review to set a new strategic direction for 2010 to 2015. We have developed a new mission for IOSCO, which focuses on the critical importance of setting high quality regulatory standards and taking action where possible to implement them. We have proposed a set of strategic goals for the next five years which include:

- > Developing a research capacity to support IOSCO's policy work, especially on analyzing sources of systemic risk from a securities markets perspective;
- > Building on the IOSCO MMoU by implementing it throughout IOSCO's membership and considering whether new higher standards are required to build on this; and
- > Improving efforts to implement the IOSCO Principles and policy recommendations.

The revised mission and strategic goals have been subject to extensive consultation within IOSCO and with





key external stakeholders, and will be submitted for the endorsement of the Presidents Committee in June 2010.

### **Completing the IOSCO Strategic Direction 2005 to 2010**

IOSCO has substantially met 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 115 IOSCO members eligible to become signatories, by 1 January 2010 there were just 5 members that had not yet submitted an application. In pursuit of this aim we augmented our resources devoted to helping non-applicants with their applications through the secondment of two members of the Screening Group to work at the General Secretariat. They were instrumental in assisting members to make their applications to become a signatory, including by organizing technical assistance from Screening Group members or providing it directly.

The global financial crisis has reinforced the importance of the IOSCO Principles. The G-20 Leaders' Declarations explicitly recognize the value of countries undertaking an independent review of their 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. We are currently undertaking three projects to provide assisted assessments of our members' compliance with the IOSCO Principles, and are participating actively in the FSB's country review process.

Outside the FSB, IOSCO maintains an active relationship and dialogue with other international regulatory bodies, including 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. We have substantially improved the quality and quantity of IOSCO's interaction with industry and investor stakeholders. Consultation with them is now a regular feature of standing committee and task force work. The Technical Committee held two general stakeholder consultation meetings and two meetings focused on important industry segments (CRAs and clearing houses) during the year.

### **Committee Support and Outreach**

To improve IOSCO's ability to serve the needs of its Emerging Markets Committee (EMC) members and enhance its training activities, the General Secretariat







took two staff on secondment as EMC Advisors, and one as an Education and Training Consultant. They have been instrumental in supporting the work of the EMC Chairs' Task Forces assessing the impact of the crisis on emerging markets, working on OTC regulation and securitization, and in developing and delivering our 2009 and 2010 training programs.

Our media visibility is increasing through improved communication of our work, with IOSCO's standards and reports being more frequently reported and discussed in the financial press. This year's reports on short selling, unregulated markets and products, and hedge funds have attracted considerable attention.

### People

The General Secretariat has grown from 9 to 15 full time staff over the course of 2009. We have taken on 5 extra staff as secondees and a net one extra permanent staff member. These extra resources have been applied as follows:

- > Two MMoU Advisors (secondees from British Columbia Securities Commission and CMVM Portugal) to work on the implementation of the MMoU P the secondee from British Columbia was replaced by a secondee from CVM Romania during 2010;
- > Two EMC Advisors (secondees from CMA Kenya and FSS Korea) to work on EMC projects and the organization of EMC meetings P the secondee from CMA Kenya was replaced by a secondee from CMB Turkey during 2010;
- > One Training and Education Consultant (from FINRA US); and

- > One extra Senior Policy Advisor (two new Senior Policy Advisors were recruited during the year, from the AFM Netherlands and AMF France, to replace the former Senior Policy Advisor), to work on the FSB and G-20, strategic direction, industry engagement and Technical Committee support.

We also recruited a new Deputy Secretary General, Mr Tajinder Singh from the Securities and Exchange Board of India, and welcomed one new administrative staff member during 2009. On the downside, we said farewell to our former Deputy Secretary General, Mr Jean Pierre Cristel, who had been a guiding hand within the General Secretariat for over 20 years, and our Senior Policy Advisor Ms Kim Allen. We wish them both well in their future careers and thank them sincerely for their contributions to IOSCO.

As the Secretariat grows, we are finding it useful to divide our activities and staffing into teams devoted to particular tasks. Without adopting a strict structure, we have people devoted to Technical Committee/FSB; EMC; MMoU Implementation; Communications; Education and Training; and Administration.

### Conclusion

As we look ahead through 2010 and beyond, we look forward to the emergence of improved economic conditions and the return of activity to capital markets across the globe. However, as markets recover it is tempting to assume that the financial crisis was an aberration and that the hard work of improving regulatory standards and implementing them globally can take a back seat. At the General Secretariat we will look to finalize and implement our new strategic direction to keep the organization focused on those aims.

# Activities of IOSCO's Working Committees in 2009

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

The Technical Committee's remit is to review regulatory issues related to international securities markets and to coordinate practical responses to these concerns. The Technical Committee's work is carried out by six Standing Committees who cover the following policy areas:

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

The Emerging Markets Committee aims to develop and improve the efficiency of emerging securities markets through the introduction of minimum standards, the provision of training programs for members' regulatory staff and facilitating the exchange of information, technology and expertise. This committee's work is carried out by Working Groups covering the following five areas:

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

Both committees may also establish special task forces to examine specific topical issues or developments in the financial markets.

The past 12 months have been quite an intense period for the Standing Committees and Working Groups with both having been engaged in major pieces of work linked to combating the effects of the ongoing financial crisis. The committees also continued to pursue mandates in their respective areas of responsibility. Task forces carry out their work to separate mandates but co-operate extensively with the Standing Committees and Working Groups where their mandates overlap. The work of the Technical and Emerging Markets' Task Forces has already been detailed in the reports of the respective chairmen.

## 2009 : The Technical Committee's Work Program

### Multinational Disclosure and Accounting

The Standing Committee on Multinational Disclosure and Accounting's work program 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.

The Standing Committee's work has continued to focus on those issues raised by the financial crisis particularly in the areas of improved issuer transparency and valuation and accounting issues. This led to the publication of a consultation report on *Disclosure Principles for Public Offerings of Asset-backed Securities* which are designed to complement IOSCO's existing disclosure principles, and the confirmation of those principles in April 2010.

The committee has continued its active monitoring of, and participation in, those efforts concerned with examining the financial reporting issues raised by the crisis. This has included participation in International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB) roundtables on subjects such as Consolidation and De-recognition proposals and classification and measurement of financial instruments as well as involvement in the IASB's dialogue with prudential regulators. The Standing Committee also contributed to proposed amendments to the International Financial Reporting Standards (IFRS) and to the International Accounting and Auditing Standards Board (IAASB) consultation on Auditing Complex Financial Instruments.

The Standing Committee continues to monitor and support the work of the international accounting standard setting bodies, through the provision of views on behalf of the Technical Committee in relation to their work, as a participant in working groups and as observers.

This has involved monitoring the projects being undertaken by the International Accounting Standards



Board (IASB); the work of IFAC's International Auditing and Assurance Standards Board (IAASB); and the activities of other bodies including the International Forum of Independent Audit Regulators (IFIAR) and the International Ethical Standards Board for Accountants (IESBA). As a result of these commitments the Standing Committee provided comments on over a dozen exposure drafts and discussion papers from the different standard setting bodies this year.

The Standing Committee also participated in meetings of the Monitoring Group, that has been monitoring the implementation of the 2003 IFAC Reforms and the Public Interest Oversight Board, and has been involved in the work of the Monitoring Group's Task Force to review the effectiveness of those Reforms.

IOSCO believes that international audit standards that contribute to high quality audits are important for





securities regulators and essential to maintaining investor confidence, therefore it continues to monitor the work by the IAASB and it was instrumental in producing the Technical Committee's public statement in June 2009 marking the IAASB's completion of its project to restructure and improve the body of International Auditing Standards.

Additionally IOSCO published three Consultation Reports on the subjects of Auditor Communications, Audit Firm Transparency, and Non-professional Ownership Structures for Audit Firms, and the Standing Committee is currently in the process of reviewing the responses it has received to these important papers.

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. The committee prepared the Consultation Report, *Principles for Periodic disclosures by listed Entities* and subsequently published the final Periodic Disclosure Principles in February 2010. These principles recommend disclosures that could be provided by issuers in periodic reports, particularly annual reports, and also touch on other related issues such as the timeliness of disclosures, disclosure criteria and storage of information concerns.

Finally the Standing Committee continues to be involved in the IOSCO Regulatory Interpretation and Enforcement Database of Decisions on International Financial Reporting Standards which is aimed at promoting

international cooperation, consultation and information sharing to protect investors.

#### Regulation of Secondary Markets

The Standing Committee continuously monitors the development in the structure of global capital markets and its markets and exchanges infrastructure, with a particular focus on changes that may have an impact on the effectiveness and integrity of markets.

In common with the rest of the Technical Committee, crisis-related work has been a key focus for this committee. This work has been focused on examining the viability of a secondary market reporting system for different types of structured finance products which led to a Consultation Report on *Transparency of Structured Finance Products* being published in February 2009. The report, which addressed potential transparency short-comings in these products, included a number of factors to be taken into consideration by member jurisdictions when enhancing post-trade transparency of structured finance products in their particular markets. The Standing Committee is in the process of analyzing the consultation responses and a final report will be published soon.

The evolving nature of markets has also seen changes in the methods used by participants to access trading venues, and the committee, in co-operation with the Standing Committee on the Regulation of Intermediaries, has been reviewing the responses received to their Consultation Report on *direct*

*Electronic Access.* The proposed principles address pre-conditions for direct electronic access, information flow and adequate systems and controls. The final principles will be published in the near future.

As market evolution has shown, exchanges and market operators have begun to use third party service providers to perform processes, services or activities that would otherwise be undertaken by the exchanges or market operators themselves. Outsourcing poses a number of important challenges to both markets and market authorities and following a consultation process the Technical Committee published *Principles for Outsourcing by Markets* in July 2009. The principles will assist exchanges, and market authorities, when considering outsourcing arrangements, by recommending that outsourcers must: conduct suitable due diligence processes in selecting a service provider; have a legally binding written contract with the service provider; establish and maintain emergency procedures; have measures in relation to the security and confidentiality of information; and ensure that the regulators and markets have access to the records of the service provider.

The growing use of dark pools of liquidity by financial institutions has raised issues around the potential impact on transparency and price discovery, fragmentation of information and liquidity, fairness and market integrity and the ability of participants to access actual trading volume in dark pools. The Standing Committee has been examining how to address such issues from a regulatory perspective, including whether it needs to provide guidance to assist regulators in dealing with these issues. This work is ongoing.

### 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 principles and of vital importance to the efficient functioning of securities markets.

In crisis-related work the Standing Committee is undertaking work on internal controls of independent investment banking firms, and the regulatory regime of liquidity risk management and liquidity standards covering both smaller securities firms as well as investment banks. It is expected that a combined consultative report covering both topics will be published in 2010.

The collapse of Lehman Brothers has highlighted the importance of the protection of client assets held by securities intermediaries in foreign jurisdictions, while the issue of intermediaries' responsibility for assessing

the suitability of structured investment products has also come under the international spotlight. In response the committee has initiated new projects during the year to address suitability standards regarding complex financial products and the protection of client assets held by insolvent securities intermediaries.

The Standing Committee continues to monitor the work of the Senior Supervisors Group to determine whether further work is warranted by IOSCO, and is also evaluating the priority and relevance of workstreams originating from the Joint Forum and Technical Committee's Task Force on Unregulated Markets and Products to the committee's work. These include: global capital standard for the securities sector; group supervision capturing the activities and risks arising from unregulated group entities; roles and responsibilities of the parties involved at different stages of the securitisation chain; and the role of trustees and their duties towards the beneficiaries and secured creditors in securitisation transactions.



In pursuit of its role in ensuring that adequate standards exist in relation to financial intermediaries and market access, the Standing Committee is currently reviewing the responses received to its joint Consultation Report, with its counterpart on the Regulation of Secondary Markets, on *Direct Electronic Access*. Following on from last year's preparatory work with the Standing Committee on Investment Management in relation to the

protection of client's interests, a Consultation Report on *Point of Sale Disclosure* was published which included a set of 6 principles designed to enhance disclosure of key information relating to collective investment schemes to investors in an accurate, understandable and meaningful manner before they invest. Both these sets of principles are expected to be finalized in 2010.

### Enforcement and Exchange of Information

Enforcement co-operation between regulators continues to be an area of focus for IOSCO and the Standing Committee continues to work to ensure the implementation of guidelines and procedures allowing better links amongst members for the exchange of information and greater co-operation in enforcement actions.

The Standing Committee has spent much of the last 12 months supporting the vital work of the Screening Group and the General Secretariat, in assisting IOSCO member jurisdictions meet the requirements for becoming signatories to the IOSCO MMoU. When the deadline ended in January 2010, 64 of the 115 eligible members were full signatories of the IOSCO MMoU while a further 46 had indicated their commitment to seeking the changes necessary to become signatories.

The IOSCO Contact Initiative, which seeks to engage on a positive basis with under-regulated or uncooperative jurisdictions, has continued to reap real benefits, with the dialogue with a number of jurisdictions now closed as they have addressed the issues identified and have applied to become members of IOSCO and to sign the MMoU.

The Financial Stability Board (FSB) recently launched an initiative to promote global adherence to international cooperation and information exchange standards and in that regard the contact initiative is being followed closely by the FSB. In support of the FSB's initiative the committee is providing regular reports, on a confidential basis, to the FSB concerning our dialogue with the remaining uncooperative jurisdictions.

### Investment Management

The importance of this sector of the world's financial markets has led to the Standing Committee focusing on the issues raised by the ongoing financial crisis for the sector, while at the same time actively pursuing its investor protection mission.

As part of its crisis related work the Standing Committee published *Good Practices in Relation to Investment Managers' Due Diligence when Investing in Structured Finance Instruments* which related specifically to where these investments are made on behalf of collective

investment schemes (CIS) offered to retail investors. These good practices set a baseline standard from which both the industry and regulators can assess the quality of the managers' own due diligence processes, and were developed in close cooperation with the industry.

The committee published a report on *Funds of Hedge Funds* in June 2008, which identified additional investor protection issues requiring further regulatory scrutiny, particularly the management of liquidity risk, and the nature and conditions of the due diligence process of Funds of Hedge Funds' managers. In response to these concerns the committee published, *Elements of International Regulatory Standards on Funds of Hedge Funds Related Issues based on Best Market Practices* (September 2009) which set out principles that would assist firms and regulators in addressing these issues.

In the area of private equity the Standing Committee has been focusing on the identification and mitigation of conflicts of interest within those types of firms, and in November 2009 published a Consultation Report on *Private Equity Conflicts of Interest*. The report examined how private equity firms manage and mitigate their conflicts in the conduct of their businesses and proposed a set of principles aimed at the effective mitigation of conflicts of interest within private equity firms. The report is expected to be finalized in 2010.

In tandem with its crisis-related work the committee has also continued to pursue its mandate in relation to investor protection. One particular piece of work, being carried out in cooperation with the Standing Committee on the Regulation of Financial Intermediaries, resulted in the publication of the Consultation Report on *Point of Sale Disclosure* (November 2009). The report included a set of six general principles designed to enhance disclosure of key information relating to collective investment schemes to investors in an accurate, understandable and meaningful manner before they invest. The report is due to be finalized in the course of 2010.

Other areas of focus for the Standing Committee over the past 12 months include the suspension of funds' subscriptions and/or redemptions, the protection and segregation of clients' assets, exchange traded funds and CIS valuation.

### Credit Rating Agencies

The Standing Committee on Credit Rating Agencies is a newly formed standing committee of the Technical Committee that is continuing the work of the Task Force on Credit Rating Agencies (CRAs) created by IOSCO in 2003.

In 2009, the Standing Committee engaged in an evaluation of several of the recent regulatory initiatives that impact, or will shortly impact, CRAs whose ratings





are used for regulatory purposes in multiple jurisdictions. This evaluation focused on whether these regulatory programs implement the IOSCO *Statement of Principles Regarding the Activities of Credit Rating Agencies* (IOSCO CRA Principles), published in 2003, which outlines a set of principles that regulators, CRAs and other market participants might follow as a way to better guard the integrity of the rating process and help ensure that investors are provided with ratings that are timely and of high quality. The IOSCO CRA Principles articulate four objectives that rating agencies, regulators, issuers and other market participants should strive to achieve in order to improve investor protection and the fairness, efficiency and transparency of the securities markets as well as to reduce systemic risk.

The results of this evaluation were issued as a Consultation Report in May 2010. The report confirms that while the structure and specific provisions of CRA regulatory programs across various jurisdictions may differ, the objectives of the IOSCO CRA Principles are embedded into each of the programs.

The Standing Committee has also engaged in a dialogue with CRAs whose credit ratings are used for regulatory purposes and who are, or will be, subject to the registration and oversight programs that have been established or are being finalized. These discussions will seek to identify divergences between the various registration and oversight programs that could cause unintended operational frictions and/or conflicting compliance obligations for a CRA that is subject to two or more programs.

## 2009 : The Emerging Markets Committee's Work Program

### Disclosure and Accounting

The Working Group 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 - including a presentation on the new IFRS for SME's which focused on those standards applicability and usefulness, close cooperation with the Technical Committee's Standing Committee on Multinational Disclosure and Accounting on joint mandates and its own discrete pieces of work focused on emerging markets jurisdictions.

As the application and implementation of IFRS in emerging markets jurisdictions remains a key focus for regulators, the Working Group has conducted a survey on the progress being made in implementation of IFRS amongst the members of the EMC. In support of this work the Working Group has also conducted a survey into the problems encountered by members in the process of implementing IFRS. The aim of this work is to produce information about experiences of members which could provide solutions and assistance to other members in their implementation efforts. This work is currently in progress.

The Working Group continued to monitor and contribute to various IOSCO workstreams including those on *Principles for Periodic Disclosures for Listing Entities*, *Disclosure Principles for Asset-backed Securities*, credit risk in liability measurement and fair value.

#### Regulation of Secondary Markets

The Working Group continues to focus its efforts on secondary market issues which impact on emerging market regulators, with particular emphasis on issues arising from the global financial crisis.

The increase in the volume of cross-border transactions and the need to maintain a fair and effective trading environment has raised issues relating to market

surveillance for EMC jurisdictions. The Working Group recently published a Final Report on the *Approaches to Market Surveillance in Emerging Markets* (December 2009) which identified the key regulatory and supervisory challenges faced by emerging markets, and provided recommendations to address vulnerabilities in these markets and to provide the basis for future sound regulatory approaches.

The Working Group is currently working on a mandate relating to the effectiveness of trading interventions in emerging markets. This follows on from the findings made in the EMC Chairman's Task Force's Final Report, on the *Impact and Responses of Emerging Markets to the Financial Crisis*, which identified trading halts and circuit breakers as principle measures being taken by



emerging market regulators to reduce instability in securities markets during the crisis.

The mandate is intended to provide emerging markets with a greater understanding of the effectiveness of intervention measures, by examining the experience of emerging markets in imposing trading interventions such as circuit breakers, market and trading halts, and the effectiveness of these measures in addressing extreme market conditions.

### Regulation of Financial Intermediaries

The Working Group on Regulation of Financial Intermediaries devoted much of the last 12 months to the development of its *Guidelines for Minimum Entry Requirements and Continuous Risk based Supervision for Market Intermediaries*, which was published in December 2009. The Final Report examined the nature and scope of the currently applicable minimum entry requirements as well as the criteria used for risk based supervision among Emerging Markets Committee (EMC) members. The report reviewed the adequacy of the approaches adopted by emerging markets jurisdictions to monitor financial intermediaries in terms of the administrative, technological, financial and human resource systems used by regulators in meeting this challenge. Its findings will contribute to enhancing risk management standards and procedures in EMC jurisdictions.

Following on from this successful project the Working Group is now focusing on *Guidance for the Efficient Regulation of Conflicts of Interest Facing Market Intermediaries*, and a survey is currently being conducted on member jurisdictions' approaches to dealing with conflicts of interest in their own markets.

### Enforcement and Exchange of Information

The Working Group on Enforcement and Exchange of Information completed its work on its mandate on the exchange of information in relation to fit and proper assessments, which was aimed at identifying the nature and scope of fit and proper assessments and the international cooperation amongst IOSCO members with regard to such assessments. The Final Report on *Best Practices on Exchange of Information under Fit and Proper Assessment* was published in December 2009.

The Final Report's main aim is to reduce the risk that responsible persons of regulated institution are not fit and proper for their roles. The Best Practices are a framework of minimum voluntary standards for sound supervisory practices, and are intended to assist IOSCO members in the exchange of information which will enable them to carry out fit and proper assessments of individuals who undertake roles at regulated institutions. This will help ensure that the competent

authorities have the necessary legal and regulatory measures available to ensure adequate regulation and oversight of their markets.

One of the outcomes of this work has been a desire on the part of members to investigate the possibility of establishing a database to assist with information exchange for *fit and proper* assessments. The Working Group is currently working with the General Secretariat on developing this project.

The Working Group has participated in the activities of the MMoU Screening Group and the Screening Group Verification Teams during the very busy period leading up to the completion of the strategic goal of completing the MMoU by January 2010. Members of the Working Group have provided vital assistance to other members in dealing with the obstacles they face in signing the IOSCO MMoU. It also continues to contribute to IOSCO's work on investor alerts and cooperation with Financial Intelligence Units.

### 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 the supervision of their developed and developing fund management industries, particularly in the area of Collective Investment Schemes.

The Working Group completed its work on the *Development and 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 – with their publication in June and December of 2009 respectively.

The Working Group is now engaged in carrying out a joint project with the Technical Committee Standing Committee on Investment Management on the suspension of fund subscriptions and/or redemptions, as this is also a very important issue for EMC jurisdictions.

In combination with its ongoing project work, the Working Group has continued to monitor market developments closely in order to keep members informed of issues of common interest, and has organized presentations for members by regulators and industry representatives on relevant topics, including the impact of the financial crisis on the fund management industry, during the IOSCO and EMC Annual Conferences in 2009.





## Report from the Chairman of the Africa / Middle-East Regional Committee

Arunma Oteh  
> Chairman of the AMERC

### Technical Developments

#### AMERC Meeting and Conference on the Development of the Bond Market

The 22<sup>nd</sup> Africa / Middle-East Regional Committee (AMERC) Annual meeting was held in Muscat, Sultanate of Oman from 14–16 March 2009, with the Global Financial Crisis and Developing Bond Markets as the main topics for discussion.

Key issues discussed during the conference in Oman were the identification of blind spots in financial globalization, regulation and development of the bond market, broadening the choice in corporate bond offerings in emerging markets and the bond market in the Gulf region.

At the end of the conference, the following recommendations were highlighted in the Working Group II Report presented by Oman:

- > the need for a robust legal and regulatory framework for the operation of the bond market segment of capital market;
- > effective regulation of market players;
- > the need for credible Credit Rating Agencies in the market;
- > effective monitoring and enforcement of valuation and accounting reporting issues; and
- > the need to develop a centralized data base within the region.

Others were the development of corporate bond and derivatives markets and the need for further dialogue and cooperation among AMERC members and other institutions, such as the International Monetary Fund and the World Bank, in the development of the bond market.

#### Implementation of the recommendations from working group survey

The AMERC region, in order to achieve the objective of deepening capital markets, continued to reiterate the

need for the implementation of the recommendations of AMERC Working Group I's mandate on *Strategic Keys to Attract the Right Companies to the Securities Markets*, presented by the Securities and Exchange Commission (SEC) of Nigeria.

The recommendations were:

- > That more incentives be provided through concessions such as tax exemptions, to encourage the participation of the right companies in the capital market;
- > Regulators should work closely with government to develop their capital markets;
- > More should be done in the area of investor education and in ensuring that corporate governance is fully entrenched in the operations of listed companies; and
- > Alternative Investment Market (AIM) should be established to support the development of small and medium-sized companies in AMERC jurisdictions.

### Training Events

#### Towards Effective Regulation and Development of an Efficient Capital Market in Africa

In September 2009, the Securities and Exchange Commission of Ghana hosted the fourth in the series of the Africa Market Development Conferences organized in partnership with the United States Securities and Exchange Commission. The theme for the workshop was "Towards Effective Regulation and Development of an Efficient Capital Market in Africa". The aim of the conference, which was supported by the United States Agency for International Development, was to enhance knowledge in securities market regulation in Africa. Around 100 participants from 10 African countries were treated to expert presentations by senior members of regulatory agencies from Africa and the United States.

## AMERC Seminar Training Programme (STP)

The Securities and Exchange Commission (SEC) of Nigeria, in collaboration with the IOSCO General Secretariat successfully organized a 3-day Seminar Training Programme (STP) with the theme “Examination, Investigation and Litigation of Securities Sales Practice Violations.” The STP, which was held from 1-3 December 2009, was attended by over 80 participants and speakers from 8 countries.

The very experienced speakers, experts in their fields, contributed greatly to the quality of the program with specific emphasis on:

- > Professional examination of firms for signs of potential fraudulent activities;
- > Types of fraudulent activities or actions that may give rise to an investigation;
- > Case investigation and the elements or facts that must generally be proven to establish fraudulent activity;
- > Documents and evidence necessary to support a course of action which can result in litigation;
- > Factors to consider in deciding how to evaluate a case for proper disposition; and
- > Bringing the case to a successful conclusion.

The conference, which focused on issues relating to the Africa and Middle-East market, offered participants a variety of perspectives from other jurisdictions like Australia, the United Arab Emirates, Canada, Spain, USA and Jamaica, and interesting practical presentations from the Financial Services Board of South Africa.

The participants from Morocco, Malawi, Ghana and their colleagues from SEC Nigeria, and other sister regulators in Nigeria, were impressed with the quality of the STP, and agreed that without investors there can be no capital market. Members therefore resolved, in the interest of investor protection, to embark on aggressive investor education, as well as increasing confidence in the market by increasing surveillance of potential fraudulent activity.

## Member Developments

### The Emirates Securities and Commodities Authorities Board established a Financial Services Training Centre

The centre will supervise and provide training and qualifying services for financial services practitioners, following up on agreements with the Securities and Investment Institute (SII), London, and the Financial Analysis Institute (FAI) of the USA as well as other relevant providers. The core aim of this specialized centre is to provide relevant technical qualifications and Continued Professional Development (CPD) programs.

### Capital Market Authority (CMA) of the Sultanate of Oman establishes Regulation of Capital Market Law

The CMA approved the issuance of the 2<sup>nd</sup> edition of the Executive Regulation of the Capital Market Law. The regulation is a comprehensive regulation for public joint stock companies, investment funds, credit rating agencies and companies operating in the securities and insurance sector. CMA has also issued a manual for the provisions and processes stipulated in Anti-money Laundering Law.

## The IOSCO MMoU Deadline

AMERC's member jurisdictions have largely met the January 2010 deadline set by IOSCO for its members to sign on to the *IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information* (IOSCO MMoU). By the end of 2009, ten members from AMERC had met the requirements to become full signatories of the IOSCO MMoU while another ten are listed on Appendix B and committed to making the necessary changes to enable them to become full signatories as soon as practicable.

## Future Challenges

The region generally was faced with the challenge of rebuilding and restoring investor's confidence in the markets following the meltdown. For instance in Nigeria, the market is currently undergoing reforms while a series of stakeholders meetings are being held to assist with this endeavour.

- > Nigeria, Jordan, Oman, Algeria, Kenya, Tanzania, Uganda and Ghana are due to undertake the Self-Assessment Project of the *IOSCO Objectives and Principles of Securities Regulation*; Nigeria has already launched its self-assessment project and other members of the committee have also made progress in order to carry out their self-assessment projects as well;
- > The Egyptian Financial and Supervisory Authority (EFSA) and IOSCO will jointly host the Global Investor Education Conference of the International Forum for Investor Education (IFIE) from 8–9 November 2010;
- > AMERC intends to organize a Regional Seminar on Risk Based Supervision (RBS) as soon as it identifies an interested host in 2010; and
- > The Financial Services Board of South Africa will host the IOSCO Annual Conference in Cape Town, in April 2011.





## Report from the Chairman of the Asia-Pacific Regional Committee

**Mr. C.B. Bhavé**  
➤ Chairman of the APRC

### Asia-Pacific Regional Committee (APRC) Activities During 2009

During the year, two meetings took place. At the meeting in Tel Aviv during the 34<sup>th</sup> IOSCO Annual Conference in June 2009, Mr. C.B. Bhavé, Chairman, SEBI was appointed as the Chairman of the APRC for a period of one year. The next meeting of the APRC was held in October 2009 in Melbourne, Australia.

#### Consultation for Review of Strategic Direction of IOSCO

During the Melbourne meeting, the Secretary General presented an update on the Executive Committee's Task Force on the Review of the IOSCO Strategic Direction: Final Review Framework, and the APRC members held an in-depth discussion on the related papers. The APRC members agreed that the strategic review is required in the context of the financial crisis and increased globalization of the securities markets.

APRC members extended their full support to the Executive Committee Chairman and the Secretary General on various discussion points such as expanding and intensifying the work of IOSCO, strengthening research at IOSCO and the proposed funding options.

#### Emerging Markets Committee (EMC) Survey on Global Financial Crisis

During the Melbourne meeting, the draft findings of the survey on *Issues emerging out of the Global Financial Crisis* were discussed. For this purpose the *2<sup>nd</sup> Emerging Markets Committee Survey relating to the Global Financial Crisis* was used as a template to collect the data on the issues concerning the jurisdictions in the APRC region. Responses from the non-EMC APRC member countries were collected individually, while the replies of the EMC members of the APRC region were obtained via the IOSCO General Secretariat.

#### Implementation Task Force Consultation

APRC jurisdictions were asked to provide their submissions on the revision of the *IOSCO Objectives and Prin-*

*ciples of Securities Regulation* (IOSCO Principles) by the Implementation Task Force (ITF). The comments of the APRC were forwarded to the ITF for their consideration.

#### IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (IOSCO MMoU)

The APRC also worked on encouraging its members to become signatories to the IOSCO MMoU or express their commitment to the same in compliance with the IOSCO Strategic Direction. In the APRC region 10 member jurisdictions out of the 22 are full signatories to the IOSCO MMoU, while 9 members are listed on Appendix B and 2 applicants are being processed. Only one jurisdiction is yet to apply to become a signatory.

The APRC Chairman, in support of the IOSCO General Secretariat's efforts, has written to those jurisdictions in the APRC region that are listed on Appendix B of the IOSCO MMoU, requesting them to prepare a project plan setting out how they will implement the legislative and practical changes necessary to comply with the MMoU and outlining any technical assistance that they feel they may need.

#### IOSCO Principles Assessment

During the year, the Securities and Futures Commission (SFC) of Hong Kong provided assistance to the Securities Commission (SC) of Malaysia for their self-assessment with the help of the Dubai Financial Services Authority (DFSA) and the IOSCO General Secretariat. Furthermore the Financial Services Commission (FSC) of Chinese Taipei sought assistance for a Principles Assessment Program from the UK Financial Services Authority (FSA) and the International Monetary Fund (IMF).

The Asian Development Bank (ADB) fully supports the IOSCO initiative to get members to comply with the IOSCO Principles and it also provided technical support to the members from Brunei and Vietnam through its technical assistance program.

## Mutual Recognition Arrangements

In the APRC region, jurisdictions have expressed interest in the cross border offering of securities, and in a major initiative, the region is exploring the creation of a facility for an *Expedited Entry Framework under the Mutual Recognition Scheme* for mutual funds.

In this respect, during the Melbourne meeting, presentations were made by the New Zealand Securities Commission on the arrangement for offerings of securities in New Zealand and Australia under the *Trans-Tasman Mutual Recognition Scheme*, and by the SC Malaysia on the ASEAN and Plus Standard Scheme for multi-jurisdictional offerings of securities within ASEAN. The presentations highlighted the framework of the schemes, benefits arising out of the same and the challenges faced.

The APRC aims to encourage jurisdictions to enter into agreements/schemes for Mutual Recognition, and priority is being put on the equivalence assessment that can also be done on a multilateral basis. The IOSCO Principles and MMoU could be used for this purpose.

## Capacity Building and Training Program

The need for capacity building of human capital has been felt more strongly, in the wake of the new challenges arising from the global financial crisis. In order to more effectively identify training needs for jurisdictions in the region, the IOSCO General Secretariat's work on Educational and Training Needs Analysis was considered, and its implications for the APRC region was considered. Based on the responses, a dedicated training calendar for APRC members was developed for 2009 and 2010.

## Specific Regional Issues Faced by APRC Members During 2009

Responses from APRC members to the results of the survey on *Issues emerging out of the Global Financial Crisis* were analysed according to 3 themes:

- > Systemic and market stability;
- > Market Integrity Issues (including investor protection, investigating market misconduct and regulatory frameworks and capability); and
- > Market development

The survey highlighted that the main challenges for EMC members in the APRC region were related to systemic and market stability, while for other members it was dealing with market integrity issues (primarily investigating and acting on alleged market abuse) and building regulatory capability.

The primary challenges across the region are building regulatory frameworks and capacity, addressing gaps in securities regulation and improving investor protection, while some EMC members remain concerned about system stability risks.

## Future Activities

### Assistance to IOSCO MMoU Applicants

The APRC Chairman has offered to extend any assistance and support which jurisdictions may require for designing and implementing their plan of action required for their transition from Appendix B to full IOSCO MMoU signatories, by 1 January 2013.

### Mutual Recognition Arrangements (Facilitating Cross-Border Offerings)

The APRC is working towards achieving the successful implementation of cross-border offerings of securities. The harmonization of securities regulations across the jurisdictions involved, in order to develop a cross-border market, would be the primary challenge. The APRC has to play a key role in facilitating this.

### Capacity Building and Training Program

Efforts will continue to develop and improve the Training Calendar to adequately respond to changes in the regulatory environment and the issues and challenges faced by the APRC's jurisdictions.





## Report from the Chairman of the European Regional Committee

Eddy Wymeersch  
➤ Chairman of the ERC

The European Regional Committee (ERC) is composed of the 45 IOSCO members from the European region. It is the forum where these members discuss topics of interest for the European region and where issues under discussion in the leading IOSCO Committees may be considered. The ERC also coordinates the distribution of information among the European members; these activities are facilitated by the fact that the Chairman of the ERC is a member of the Executive Committee and also attends the meetings of the Technical Committee.

Over the past twelve months the ERC held meetings in Madrid, Tel Aviv and Basel. During each of these meetings the Chairman provided feedback to the members on the results of the meetings of the Technical and Executive Committees. The members were briefed on the main activities accomplished by the Standing Committees and Task Forces of the Technical Committee and on their ongoing mandates. Presentations were given by a number of ERC members who are closely involved in these working committees, with reference also made to the activities of the Emerging Markets Committee. Furthermore, the members were informed of the input by IOSCO to other international fora such as the Financial Stability Board and the G-20.

This information provided members with a better insight into the work undertaken at the different levels of the organization and allowed for an exchange of views among the members on the issues at stake. During 2009, the discussion in the ERC focused especially on the crisis-related activities of IOSCO and members welcomed the key messages of IOSCO that encourage a focus on well-regulated capital markets, investor confidence and transparency.

The ERC also discussed IOSCO's Strategic Direction Review and how to make the organization more effective. On this important project, a special presentation by the Chairman of the Executive Committee and by the Secretary General was held for members, who were encouraged to take part in the consultation process.

The members also discussed IOSCO's contribution to the global regulatory infrastructure, which includes the

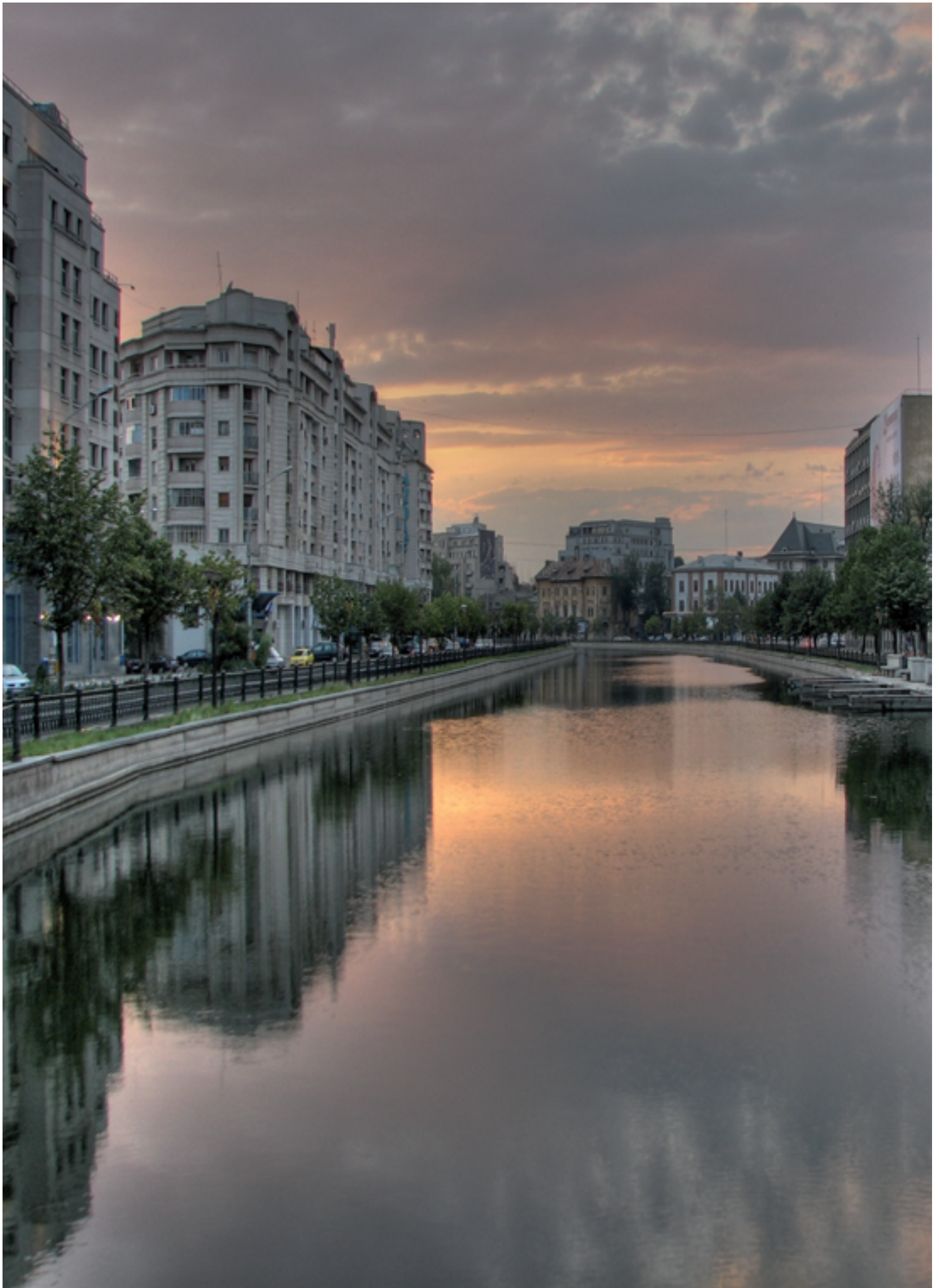
review of the *IOSCO Objectives and Principles of Securities Regulation* and the *IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information* (IOSCO MMoU). Initiatives were taken to encourage the members to become a signatory of the IOSCO MMoU, and by the end of 2009 32 ERC members were listed as full signatories, while 11 members were listed on Appendix B.

Over the last twelve months, a number of topics specific to the European region were discussed. Apart from the exchange of information among the members on relevant new developments in the different jurisdictions, the members were regularly updated on the activities of the Committee of European Securities Regulators (CESR). Members expressed specific interest in the work of CESR on mutual recognition with non-European Union (EU) jurisdictions, and consequently discussions were held on the approximation of the regulations of EU and non-EU members.

Presentations were also given on the EU proposals to strengthen the European financial supervisory framework, both at the micro-prudential and the macro-prudential level.

The ERC intends to follow closely this major change in an important part of the region and to inform members of the impact this might have on CESR, the body that will become the European Securities and Markets Authority (ESMA), and on securities supervision in Europe in general.







## Report from the Chairman of the Inter-American Regional Committee

**Rosario Patrón**  
> Chairman of the IARC

The Inter-American Regional Committee of IOSCO (IARC) brings together jurisdictions of Latin America, the Caribbean and North America. Therefore, it contains a wide range of economies and markets, some of them being developed economies but most of them are emerging economies. In spite of differences in market size, sophistication and diversification, these jurisdictions share a history of doing business together. The common cultural, historical and legal backgrounds of each group of jurisdictions also provide useful tools in understanding the stages of market development of each member jurisdiction and the ways in which common difficulties might be overcome.

The aims pursued by the IARC have been the following:

- > to keep regional jurisdictions well informed about all the activities in the IOSCO committees and task forces and, more generally, about trends in financial products, markets and the standards for their regulation and oversight;
- > to ensure that the views of all regional jurisdictions on the issues currently being discussed in IOSCO are passed to the IOSCO committees;
- > to facilitate enhanced cross-border cooperation and exchange of information in a broad range of matters and help jurisdictions in meeting IOSCO's strategic directives;
- > to define common regional issues that may need analysis, and promote work within the region to address those issues as well as joint training experiences on such issues; and
- > to network with organizations that can have common interests with the IARC to develop joint initiatives.

Meetings take place three times a year with an early meeting in April, a meeting during the IOSCO Annual Conference and a late meeting in October/November, generally after the Emerging Markets Committee (EMC) meeting so as to profit from the outcomes of the latter.

Each IARC meeting agenda was developed in order to encourage all jurisdictions to participate actively, and as a consequence, the meetings have become

more inclusive and meaningful for all participants. In order to ensure the exchange of information, each IARC meeting has fixed sections to discuss the work being carried out by the IOSCO Executive, Technical and Emerging Markets Committees as well as by some important Task Forces, such as the Implementation Task Force and the Technical Committee Standing Committee on Enforcement and Exchange of Information. Each meeting agenda also has a section on regulatory and organizational changes in each regional jurisdiction, which is extremely useful to its membership as it allows us to learn how each jurisdiction is progressing towards compliance with the IOSCO Principles. Other jurisdictions may use such information as an example to assist with regulatory or enforcement difficulties in their own markets.

The consequences of the ongoing international financial turmoil have been extensively discussed during our recent meetings, with each jurisdiction reporting on the effects of the crisis both on the financial and in the real economy.

## IARC Technical Activities

**IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (IOSCO MMoU)**

Special items in the IARC agenda have been devoted to Action Plans developed by the regional jurisdictions to



comply with the *IOSCO Objectives and Principles of Securities Regulation* (IOSCO Principles) and to the progress made in complying with the IOSCO MMoU 2010 deadline.

A special workshop, led by members of the Screening Group, was held to clarify the issues involved in answering the IOSCO MMoU questionnaire and to assist countries to complete their application processes. As a consequence, all IARC jurisdictions were able to apply, except for two jurisdictions that had insurmountable difficulties related to their political situation. However, such jurisdictions have now indicated that they are in a position to complete the application process.

### Technical Issues

The regulation of Credit Rating Agencies (CRAs), challenges posed by self-regulatory activities, and the integration of regional financial markets were identified as the issues that all regional jurisdictions had an interest in analysing. Working groups were given mandates to develop work on these matters, surveys were conducted and reports were presented in each meeting. The results on CRAs regulation in the Americas are complete and available for consultation. The final report on SROs in the Americas will be circulated to the ITF and to the other IOSCO regional committees. The work on regional integration of financial markets is still in progress.

### International Cooperation

The chairman has networked with regional and international organizations to identify and pursue common initiatives. These include working with the World Bank Western Hemisphere Initiative on Payment Systems and the World Bank Capital Markets Division, the International Monetary Fund (IMF) Division of Capital Markets, the Ibero American Federation of Exchanges (FIAB), the World Federation of Exchanges (WFE) and the Organisation for Economic Cooperation and Development (OECD) Latin American Round Table on Corporate Governance.

As a consequence, IARC's membership has benefited from seminars jointly organized on such topics as Central Depositories and Payments Systems (World Bank); Risk Based Supervision, Systemic Risk and Risk Based Monitoring (IMF) and exchange of information on the most important issues being discussed by regional and world exchanges (WFE and FIAB).

### Future Activities

Future work includes a continuation of joint yearly meetings with the regional regulators of Payments Systems, close contacts with the FIAB, meetings with the OECD Latin American Round Table for Corporate Governance, a joint initiative with the latter for carrying out a survey on Corporate Governance in the region and work on IFRS and Regional Bond Markets following the World Bank's and EMC initiatives on these matters.





# IOSCO's Education and Training Program

Education and training is an important tool in helping IOSCO fulfill its mission of assisting its members in developing their regulatory capabilities. As a result, IOSCO determined the need to perform a comprehensive review and a Needs Analysis of its Education and Training (Eo T) programs. This review was carried out in order to ensure IOSCO training is: **responsive to the needs of the membership; and accomplished in the most effective and efficient manner.**

IOSCO seeks to build upon the success of its annual Seminar Training Program (STP) and leverage off what has been accomplished at these events.

The needs analysis performed in March 2009 was conducted in a manner that ensured maximum input from IOSCO's membership and the IOSCO Secretary General and his staff.

IOSCO and its members recognize the critical role that education and training plays in IOSCO members being able to successfully regulate their market. Clearly quality education and training programs not only help regulators do their job, but E&T programs also:

- > make regulators more proficient and effective;

- > help ensure consistency in regulatory responses and results;
- > give regulators confidence in the decisions they make;
- > allow regulators to keep up with changes in the markets in these dynamic and challenging times; and
- > help employee retention.

IOSCO is uniquely positioned to shape the global education and training landscape for securities regulators as well as providing even greater value to its members through its E&T products and services.



Indeed, IOSCO is in a position to enhance its regulatory integrity by building exemplary E&T programs, which can provide jurisdictions with possible solutions to many E&T challenges.

Here are some of the survey highlights. Response rate:

64 survey responses were received from the 188 IOSCO members. This includes:

- > 51 surveys received from the 109 ordinary IOSCO members;
- > 5 surveys received from the 11 associate members; and
- > 8 surveys received from the 68 affiliate IOSCO members.

## Findings

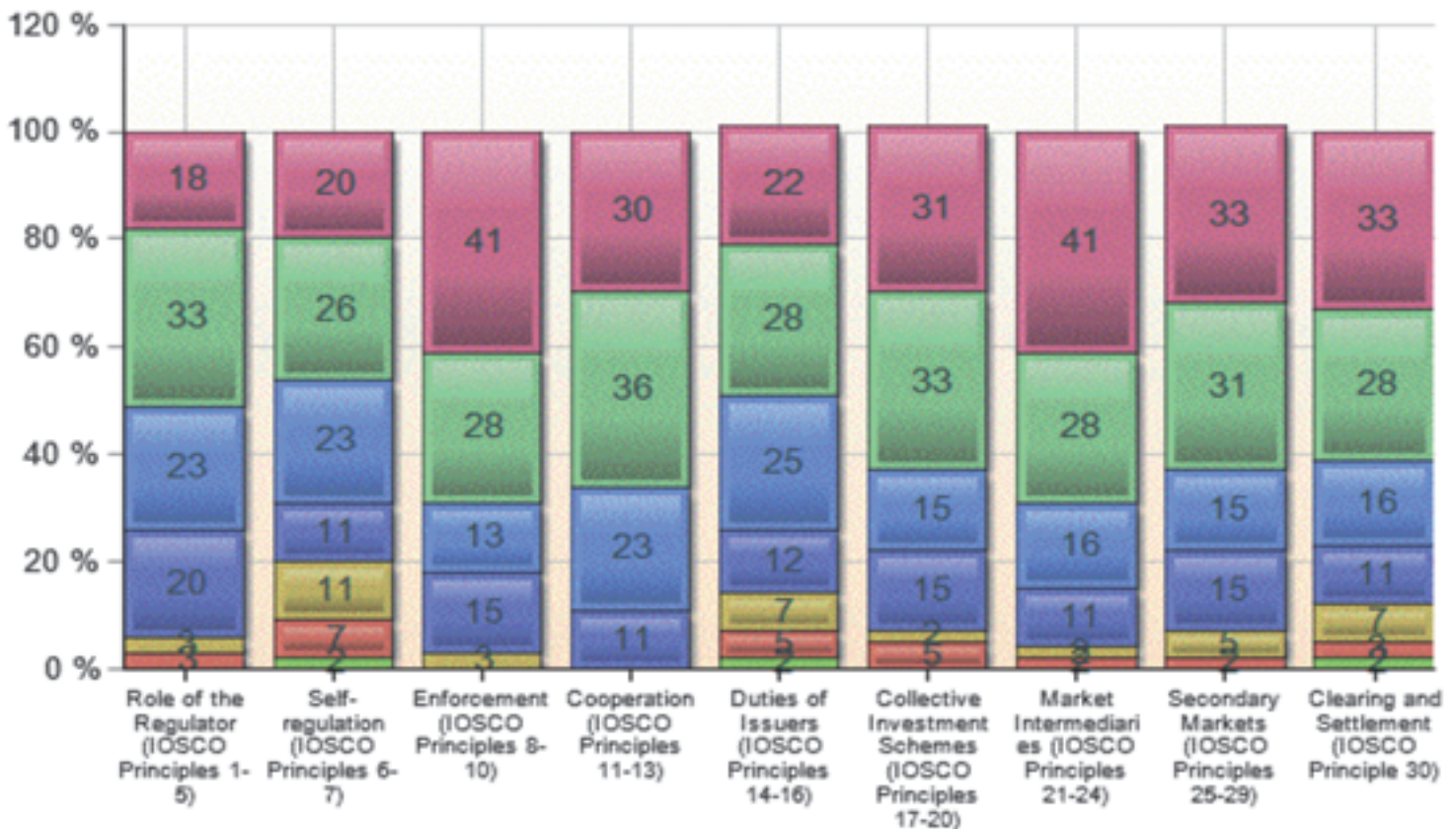
The survey results reflected strong agreement that IOSCO E&T programs should provide an international regulatory perspective, and bring attendees up to date regarding regulatory matters. In addition, attendees strongly agreed that attending IOSCO E&T programs “will help me in my regulatory responsibilities”.

Respondents preferred to have a three to four day E&T program. They also expressed a preference to use case studies and receive instruction from regulators and industry professionals.

Based on responses to the survey, E&T should focus on the following issues<sup>1</sup>:

**For each topic below, please indicate your level of interest IOSCO Principles:**  
 (<http://www.iosco.org/library/pubdocs/pdf/IOSCOPD154.pdf>)

■ Not Interested   
 ■ 2   
 ■ 3   
 ■ 4   
 ■ 5   
 ■ 6   
 ■ Very Interested



<sup>1</sup> Percentages reflect the number of respondents who marked an item as a 6 or a 7 reflecting the highest level of interest on a 7 point scale.



## IOSCO Eo T Activities 2009-2010

### IOSCO Seminar Training Program

The 2009 IOSCO Seminar Training Program was held from 27-30 October in Madrid. The program agenda and topics were decided on the basis of the responses received from members in the IOSCO Education and Training survey. The subject of the seminar was Examination, Investigation, and Litigation of Insider Trading and Market Manipulation Cases in Securities Regulation.

This intensive four day course examined in detail the topics of insider trading and market manipulation. Over 60 participants from 38 member jurisdictions attended the seminar, which was booked out some weeks in advance. The course was designed for regulators who desire to fully understand how best to examine, investigate, develop, and successfully litigate a case involving insider trading or market manipulation. In addition, the course featured an update regarding the regulatory implications of the global financial crisis as well as a segment addressing investor education.

This course addressed, at a minimum, issues and materials regarding IOSCO Principles, namely Principles

1-5 *Relating to the Regulator*, Principles 8-10 *Relating to Enforcement*, and Principles 11-13 *Relating to Cooperation*. Full details, including speakers' presentations and case studies, are available on the IOSCO website.

In order to leverage off the success of the annual Seminar Training Program, we will be holding similar training seminars using the same broad format, theme and materials for regionally based seminars. The first of these was held in the Africa / Middle-East Region (AMERC) in December 2009.

From 27-29 May 2010 the first European Regional Committee Mobile STP will be hosted by the Capital Markets Board of Turkey. While the Financial Supervisory Commission of Chinese Taipei will be hosting the first Asia Pacific Regional Committee Mobile STP from June 29 to July 2, 2010.

The annual Seminar Training Program will be held at IOSCO, Madrid from 19-22 October 2010 on Understanding New Financial Products and the Regulatory Implication of those Products.



### **Seminar on Market and Liquidity Risk: jointly organized by IOSCO and the Financial Stability Institute (FSI)**

The fourth edition of the joint IOSCO and FSI seminar took place at the IOSCO headquarters in Madrid from 23 to 25 November 2009. The FSI is the training arm of the Bank for International Settlements, and this joint seminar has proved successful in examining some cross sectoral issues. This year's seminar focused on Trading Book Issues and Market Infrastructure. The next joint IOSCO/FSI seminar will be held from 16-18 November 2010.

### **Regional Seminar for Africa / Middle-East Regional Committee members**

The Africa / Middle-East Regional Committee Seminar Training Program was held from 1-3 December 2009 in Abuja, Nigeria, with the kind assistance of the Securities and Exchange Commission of Nigeria. The theme of this seminar was "Examination, Investigation and Litigation of Securities Sales Practice Violations". This seminar was open to AMERC members. The theme was chosen following the feedback received from the IOSCO Training Needs Assessment exercise in the first half of 2009 by the IOSCO General Secretariat and in conjunction with the hosts.

### **IOSCO Self-Regulatory Organizations Consultative Committee (SROCC)**

Following a highly successful first seminar in Washington D.C. in December 2008, the SROCC had again conducted a three-day training seminar, this time in Reading, United Kingdom, from 11-13 January 2010. The seminar had mainly targeted emerging

market regulators and SRO officials. The seminar was co-organized by the Emerging Markets Committee (EMC), the Financial Industry Regulatory Authority (FINRA), the International Capital Market Association (ICMA), and the Japan Securities Dealers Association (JSDA). The program covered preventive measures against unfair trading, a framework for market surveillance, emerging market issues in clearance and settlement, credit default swaps, and how IOSCO principles are implemented regarding these areas in a variety of jurisdictions. Also, participants were invited to experience a trading simulation facility provided by the ICMA.

The next SROCC seminar is scheduled for Rio de Janeiro, Brazil from 30 November to 2 December 2010.

### **Emerging Markets Committee Training**

A workshop on risk-based supervision for securities regulators, took place in San Jose, Costa Rica, from 26-29 January 2010. The workshop was developed with the technical support of the International Monetary Fund (IMF) and FINRA. The workshop was designed for staff with responsibilities for the supervision of securities firms and products (brokerage firms, fund managers etc). It was conducted in Spanish, with translation in English. Similar Workshops will be organized across IOSCO's different regional committee areas in the near future.



2009 IOSCO STP, group photograph

# 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 body 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 P the 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 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 18 agencies that regulate some of the world's 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, Brazil, China, France, Germany, Hong Kong, India, Italy, Japan, Mexico, the Netherlands, Ontario, Quebec, Spain, Switzerland, United Kingdom and the United States.

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 to 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.

### 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 information can be found at [www.iosco.org/events](http://www.iosco.org/events) or can also be obtained from the IOSCO General Secretariat.

## IOSCO'S STRUCTURE



## Membership Categories and Criteria

### Categories

There are three categories of membership within IOSCO which are designed according to the different approaches to securities markets regulation while also ensuring that those members with an interest in the regulation of securities markets are also involved in the debate on securities market issues.

The three categories are:

- > Ordinary
- > Associate; and
- > Affiliate

The annual membership fee for all categories is €10,100.

### Ordinary

This category is open to a securities commission, or a similar government or statutory regulatory body that has primary responsibility for securities regulation in its jurisdiction.

If there is no governmental, or statutory, regulatory body in a jurisdiction then a self-regulatory body, such as a stock exchange, in that jurisdiction is eligible for ordinary membership of IOSCO. However, the ordinary membership of a self-regulatory body admitted to IOSCO will lapse if a governmental regulatory body from the same jurisdiction becomes the ordinary member for that jurisdiction.

Ordinary members each have one vote in the Presidents Committee, which meets yearly at the Annual Conference.





### Associate

The following bodies can apply to become associate members of the organization:

1. a public regulatory body with jurisdiction in the subdivisions of a jurisdiction if the national regulatory body is already an ordinary member; and
2. any other eligible body with an appropriate responsibility for securities regulation.

A self-regulatory body is not eligible for associate membership.

Associate members do not have the right to vote and are also precluded from membership of the Executive Committee; however they are members of the Presidents Committee.

### Affiliate

A self-regulatory body (SRO), or an international body, with an appropriate interest in securities regulation is eligible for this category of membership.

Affiliate members do not have a vote, are not eligible for the Executive Committee and are not members of the Presidents Committee. SRO affiliate members form the SRO Consultative Committee.

### Application Process

To become a member of IOSCO, a body must apply in writing to the Secretary General. The application must be

accompanied by the prescribed membership fee of €10,100. A body will become a member if its application is accepted by the Presidents Committee upon the recommendation of the Executive Committee.

### Ordinary

The application for this category must include:

- > 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;
- > a brief description of securities regulation in that applicant's jurisdiction, including the bodies which exercise regulatory functions with regard to securities markets oversight in that jurisdiction;
- > a translation of the primary securities legislation of that jurisdiction in one of the official languages of IOSCO (English, French, Portuguese and Spanish);
- > responses to a *High Level Questionnaire* including general information about the current regulatory frameworks; and
- > responses to the *IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (MMoU) Questionnaire*. The questionnaire is included in Appendix B of the MMoU text.

Applicants for ordinary and associate membership with primary responsibility for securities regulation need to apply to become signatories to the IOSCO MMoU and will need to become signatories to it as a condition of being accepted as an IOSCO member.

### Associate

The application for this category must include a description of the applicant and its mission.

If the applicant for associate membership has primary responsibility for securities regulation in his jurisdiction, the application must also include the following:

- > responses to a *High Level Questionnaire* including general information about the current regulatory frameworks; and
- > responses to the *IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (MMoU) Questionnaire*. The questionnaire is included in Appendix B of the MMoU text.

### Affiliate

An application for affiliate membership must include:

- > a description of the applicant and its mission;
- > an endorsement/recommendation letter by the ordinary member, or ordinary members, of the applicant's jurisdiction.

Further information about IOSCO can be found at [www.iosco.org](http://www.iosco.org).

### 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	April 2011
Beijing, China	June 2012

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



#### 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 2009, 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 2009, and of its consolidated 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 blue ink that reads "KPMG" followed by a stylized flourish or arrow pointing to the right.

Madrid, 31 March 2010

# Financial Statements

## STATEMENT OF COMPREHENSIVE INCOME

Year ended December 31, 2009

	2009	2008
<b>REVENUE</b>		
Contributions from members (note 3)	1,824,546	2,040,895
Secondment program (note 3)	223,794	-
Annual conferences	120,000	120,000
Exchange gain	-	1,180
Other	21,455	95,148
<b>Total revenue</b>	<b>2,189,795</b>	<b>2,257,223</b>
<b>EXPENSES</b>		
Salaries and employee benefits	1,826,906	1,312,013
Rental and maintenance (note 12)	90,037	83,357
Travelling	265,471	201,113
Office supplies	22,313	16,176
Organization and follow up of meetings	40,206	56,840
Telecommunications	62,902	54,611
Delivery and communication	17,968	14,389
Printing and Annual Report	16,202	14,425
Computer	140,645	134,420
Professional fees	56,513	30,435
Educational programs	36,194	35,647
Miscellaneous	35,147	31,537
Exchange loss	4,712	-
Depreciation of capital assets (note 6)	60,969	76,676
<b>Total expenses</b>	<b>2,676,185</b>	<b>2,061,639</b>
<b>Excess of revenue over expenses before tax (expenses over revenue)</b>	<b>(486,390)</b>	<b>195,584</b>
Taxation (note 10)	-	-
<b>Excess of revenue over expenses net of tax (expenses over revenue)</b>	<b>(486,390)</b>	<b>195,584</b>
Other comprehensive income	-	-
<b>Total comprehensive income for the year net of tax (in euros)</b>	<b>(486,390)</b>	<b>195,584</b>

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

# STATEMENT OF FINANCIAL POSITION

As at December 31, 2009

	2009	2008
<b>ASSETS</b>		
Current assets		
Cash (note 4)	1,518,817	422,227
Term deposits (note 5)	-	2,100,504
Accounts receivable	17,153	10,671
Prepaid expenses	13,721	4,027
	<b>1,549,691</b>	<b>2,537,429</b>
Capital assets (note 6)	85,320	92,488
<b>Total assets</b>	<b>1,635,011</b>	<b>2,629,917</b>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities (note 7)	227,155	666,171
Contributions received in advance	80,735	150,235
<b>Total liabilities</b>	<b>307,890</b>	<b>816,406</b>
<b>MEMBERS' FUNDS</b>		
Excess of revenue over expenses net of tax (expenses over revenue)	(486,390)	195,584
Unrestricted members' funds	1,813,511	1,617,927
<b>Total members' funds</b>	<b>1,327,121</b>	<b>1,813,511</b>
<b>Total liabilities and members' funds</b>	<b>1,635,011</b>	<b>2,629,917</b>

(in euros)

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



## CHANGES IN MEMBERS' FUNDS

Year ended December 31, 2009

		2009	2008
	UNRESTRICTED	TOTAL	TOTAL
Balance, beginning of year	1,813,511	1,813,511	1,617,927
Excess of revenue over expenses net of tax (expenses over revenue)	(486,390)	(486,390)	195,584
<b>Balance, end of year</b> <b>(in euros)</b>	<b>1,327,121</b>	<b>1,327,121</b>	<b>1,813,511</b>

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

# STATEMENT OF CASH FLOWS

Year ended December 31, 2009

	2009	2008
<b>OPERATING ACTIVITIES</b>		
Total comprehensive income for the year net of tax	(486,390)	195,584
Depreciation of capital assets (note 6)	60,969	76,676
Decrease (increase) in working capital items (note 9)	(524,692)	(68,425)
<b>Net cash generated</b>	<b>(950,113)</b>	<b>203,835</b>
<b>INVESTING ACTIVITIES</b>		
Term deposits transactions	1,000,504	(1,000,504)
Capital expenditures (note 6)	(53,801)	(24,122)
<b>Net cash used</b>	<b>946,703</b>	<b>(1,024,626)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(3,410)</b>	<b>(820,791)</b>
Cash and cash equivalents, beginning of year	1,522,227	2,343,018
<b>Cash and cash equivalents, end of year</b>	<b>1,518,817</b>	<b>1,522,227</b>
<b>CASH AND CASH EQUIVALENTS</b>		
Cash (note 4)	1,518,817	422,227
Term deposits (note 5)	-	1,100,000
<b>Total cash and cash equivalents</b>	<b>1,518,817</b>	<b>1,522,227</b>

(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.

IOSCO is the international standard setter for securities regulation. Its current membership comprises regulatory bodies from over one hundred jurisdictions who have day-to-day responsibility for securities regulation and the administration of securities laws.

## 2 Accounting policies

### Basis of preparation

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

The financial statements are prepared in Euros.

### Measurement base

The financial statements have been prepared on an accrual basis with all assets and liabilities, other than financial instruments, valued at historical costs. Financial instruments are measured on a fair value basis.

### 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.

### Revenue and cost recognition

Member contributions are deferred when prepaid and recognised as income only upon accrual and receipt.

Revenue received in advance represents prepaid members contributions.

Operating costs are recognized 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 less accumulated depreciation. Any impairment in the net recoverable amount as compared to the net carrying amount is recognized immediately.

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



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

	Methods	Rates
Furniture and fixtures	Straight-line	20A
Computer equipment		
Computers and Software	Straight-line	33A
Servers	Straight-line	25A

### Foreign currency translation

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

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

## 3 Revenue

Contributions from members include membership fees collected in the year, corresponding to contributions due for the reporting period and previous reporting periods and contributions from members applying for membership.

Secondment program revenue includes contributions from members sponsoring staff to join temporarily the General Secretariat. These contributions generally cover a portion of the seconded staff's salary costs paid through the Organization.

In 2009 the Organization has welcomed seconded staff from the British Columbia Securities Commission (BCSC), the Capital Markets Authority of Kenya (CMA), the Financial Supervisory Service of Korea (FSS), the Portuguese Securities Market Commission (CMVM) and the Financial Industry Regulatory Authority of the US (FINRA).

Annual conference revenue represents the contribution from the member hosting the Annual Conference.

Other revenue is comprised basically by interest income on short-term deposits and marginally by sales of IOSCO documents.

## 4 Cash

	2009	2008
Cash in U.S. Dollars (US\$ 4,703 in 2009; US\$ 5,695 in 2008)	3,782	4,040
Cash in Euros	1,515,035	418,187
<b>Total cash</b>	<b>1,518,817</b>	<b>422,227</b>

(in euros)

There are no restrictions for the use of cash.

## 5 Term Deposits

	2009	2008
1.85A term deposit. Expiration date: January 15, 2009	-	1,100,000
1.70A term deposit. Expiration date: December 18, 2009	-	1,000,504
<b>Total term deposits</b>	<b>-</b>	<b>2,100,504</b>

(in euros)

## 6 Capital Assets

	Furniture and fixtures	Computer equipment	2009 Total
At the lower of recoverable value and cost			
Balance, beginning of year	14,858	477,042	491,900
Additions	6,511	47,290	53,801
Disposals	-	-	-
Balance, end of year	21,369	524,332	545,701
Accumulated depreciation			
Balance, beginning of year	(8,149)	(391,263)	(399,412)
Depreciation	(2,851)	(58,118)	(60,969)
Disposals	-	-	-
Balance, end of year	(11,000)	(449,381)	(460,381)
<b>Net as at December 31, 2009</b>	<b>10,369</b>	<b>74,951</b>	<b>85,320</b>

(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)
<b>Net as at December 31, 2008</b>	<b>6,709</b>	<b>85,779</b>	<b>92,488</b>

(in euros)

## 7 Accounts payable and accrued liabilities

	2009	2008
Professional services	12,309	25,540
Occupancy	63,000	58,500
Spanish Taxes and Social Security	41,881	29,292
Contractual staff commitments	90,000	503,166
Other	19,965	49,673
<b>Total Accounts payable and accrued liabilities</b>	<b>227,155</b>	<b>666,171</b>

(in euros)

## 8 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.

## 9 Information Included in the Statement of Cash Flows

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

	2009	2008
Accounts receivable	6,482	1,277
Prepaid expenses	9,694	(745)
Accounts payable and accrued liabilities	439,016	(44,306)
Contributions received in advance	69,500	112,199
<b>Increases (decreases) in working capital</b>	<b>524,692</b>	<b>68,425</b>

(in euros)

## 10 Taxation

On 29 December, 1999, the Spanish Parliament passed legislation (Law 55/1999), to exempt the Organization from Spanish income tax.

## 11 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 € 82,926 for the year 2009. 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

	2009	2008
Estimated Spanish Authorities' charges for non structural maintenance costs	63,000	58,500
Other external maintenance services	27,037	24,857
<b>Total rental and maintenance</b>	<b>90,037</b>	<b>83,357</b>

(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





**OICJ-IOSCO**

**International Organization  
of Securities Commissions**

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