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Panel 4: Challenges Related to the Implementation of the IOSCO Principles and of the IOSCO MOU in Emerging Securities Markets

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EXPERIENCE WITH THE ASSESSMENT OF THE IOSCO PRINCIPLES OF SECURITIES REGULATION

IMF/WB Financial Sector Assessment Program

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IOSCO Annual Meeting, Hong Kong, 2006
SCOPE

☐ Joint IMF/WB study on the experience with IOSCO Assessments.
☐ Conducted as part of the FSAP program
☐ We reviewed 70+ assessments
☐ Still is an internal working document
☐ Distributed early for transparency purposes
☐ And to benefit from IOSCO input
SCOPE

- Joint IMF/WB study on the experience with IOSCO Assessments.

  Three objectives:
  - Levels of implementation of the Principles (follow up of 2002 Report)
  - Use of the Methodology
  - Improvements in the assessment for IMF/WB
Financial Sector Assessment Program (FSAP)

- Purpose is to strengthen the financial sector in countries
- And address on time potential risks and systemic vulnerabilities
- System-wide approach analysis of financial sector issues
- Independent review of observance of international standards and codes
- Voluntary
LEVEL OF IMPLEMENTATION

- Overall level of implementation was positive
- We found significant weaknesses and gaps that are common, regardless of region or income, relating mainly to:
  - Independence
  - Resources and powers
  - Enforcement
  - Accounting and auditing standards
  - Risk management
LEVELS OF IMPLEMENTATION BY PRINCIPLES (2002vs.2006)

No substantial improvements between two evaluations
LEVELS OF IMPLEMENTATION
BY INCOME (I + BI)
LEVELS OF IMPLEMENTATION
BY REGION (I + BI)
LEVEL OF IMPLEMENTATION

- For each group of Principles, key issues are:
  - Regulator: lack of independence from the government, lack of powers (mainly licensing and enforcement) and resources
  - Enforcement: insufficient powers (on site inspection of third parties and issuers; supervision of auditors) and lack of effective implementation (sanctions and judiciary system)
LEVEL OF IMPLEMENTATION

- SRO: limited oversight, confusion on the concept, not clear division of labor with regulator
- Cooperation: higher levels of implementation than expected
- Issuers: lack of high quality standards for accounting and auditing, lack of appropriate mechanisms to oversee the accounting and auditing professions
- CIS: problems with asset valuation
LEVEL OF IMPLEMENTATION

- Market intermediaries: lack of a comprehensive framework of prudential regulation (both capital requirements and risk management), no contingency plan in case of insolvency

- Secondary markets: lack of appropriate mechanisms to oversee SROs (on site inspections as part of the regular program) and implementation of market abuse rules
USE OF THE METHODOLOGY

- The use of the Methodology has been beneficial
  - Provides a framework for the discussion with the authorities, and more generally for the analysis
  - Self assessments are more rigorous
  - Assessments are more detailed (though sometimes too lengthy)
USE OF THE METHODOLOGY

- However the Methodology has not solved many of the problems of quality and consistency identified in 2002.
- We see problems that cut across Principles
  - Inconsistency in the grades
  - Limited guidance in the assessment of “implementation” details
RECOMMENDATIONS

- On-Going review of the Methodology is necessary
- However, given time and resource limitations, quality of the assessor remains key to the final outcome.
  - Roster of assessors:
    - Selection process (limited group)
    - Input from IOSCO
    - Subject to “training sessions” before missions
    - Additional support from HQ (guidance notes).
    - Explore joint effort with IOSCO
RECOMMENDATIONS

- Market development work in emerging markets
  - In some cases, assessment of preconditions will render more value than of the IOSCO principles
  - WB is developing a development assessment tool (IOSCO Principles use as a framework)

- Vulnerability assessment
  - IMF should develop framework based on analysis of links between securities regulatory failure and financial sector vulnerabilities
THANKS