

**Attachment One***IOSCO work on Cybercrime***Background**

IOSCO considers the threat of cyber-crime in securities markets to be of significant systemic importance. Cyber-crime is not only perpetrated for financial gain but also for political, ideological and geopolitical purposes, where general disruption, revenge and sabotage are the aims. As such, cyber-crime is not just an 'IT' issue, nor is it a passing nuisance or simple extension of traditional financial crime. Cyber-crime constitutes an emerging risk to the integrity, efficiency and soundness of financial markets and in the absence of a concerted effort to understand and identify how this risk could manifest, cyber-crime could become a future black swan event.

**Work to Date**

In this context, IOSCO has taken a number of steps to understand the specific cyber-threat facing global securities markets and identify practical mitigations. Specifically:

- A joint IOSCO/WFE data gathering survey and staff working paper entitled 'Cyber-Crime, Securities Markets and Systemic Risk'<sup>1</sup> exploring the systemic risk aspects of the cyber-threat as well as the views and experiences of the world's exchanges;
- IOSCO representation in the CPSS Working Group on Cyber-Security;
- A small roundtable on cyber-crime held at the IOSCO Secretariat in July with participants drawn from 20 regulators, experts and market participants, to gain a broader view on how cyber-crime is impacting different types of securities market participants;
- A high-level roundtable on cyber-crime held during the IOSCO Board meeting in Luxembourg, focusing on mitigations and the potential role of IOSCO (see **Annex A** for a summary of the event).

These activities have pointed to the need for work in a number of areas including the following:

- Improving cyber-security and cyber-resilience among market participants;
- More effective co-ordination of the current fragmented approaches to cyber-crime;
- Facilitating cross-border and cross-sectorial information sharing and cooperation in relation to cyber attacks;

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<sup>1</sup> IOSCO/WFE, 'Cyber-crime, Securities Markets and Systemic Risk', Staff Working Paper, July 2013  
<http://www.iosco.org/research/pdf/swp/Cyber-Crime-Securities-Markets-and-Systemic-Risk.pdf>

- Measures to deter cyber-criminals;
- Monitoring the risks posed to different types of market participants to get a better understanding of the different types of cyber-attacks they are most likely to face;
- Consideration of the **systemic risk** aspects of cyber-threats (in addition to a firm-level risks);
- Providing relevant and timely information on emerging risks to market participants; and
- Recognising cyber-risk considerations in financial policy work.

### **Planned work**

IOSCO is developing a work plan to be discussed at our next Board meeting next February which has the following elements:

1. **Developing global best practice guidance** to build cyber-resilience into market participants (including market infrastructure).
2. **Drafting guidance for emergency response**, at both the firm and system-level, to deal with large-scale, potentially systemic cyber-attacks. 100% cyber-security is illusionary and most market participants acknowledge that eventually an attack with systemic potential will breach defenses. As such, emergency planning can help ensure firm-level responses are effective in mitigating the impacts from an attack; and avoid a regulatory overreaction, that may exacerbate the impacts.
3. **Encouraging cross-jurisdictional and cross-sectoral information sharing and cooperation**, including through use of existing tools such as the IOSCO MMoU and Investor Alert System. Even though cyber-crime is not constrained by national borders, information sharing on attack instances is almost strictly national (or at best regional) in nature. Cross-jurisdictional and/or cross-sectoral information sharing around the cyber-threat is essential, since if an attack against a firm is not communicated quickly the cyber-criminal can use the same method to exploit other market participants.
4. **Continuing monitoring, research and expertise building**, to understand the growing and evolving cyber-threat and how it affects or could affect different market market participants. Such focus could assist in identifying cyber-trends, emerging cyber-risks and potential vulnerabilities, from a global, securities markets perspective.
5. **Embedding consideration of cyber-risks in other policy work**, given the increasing reliance on technological infrastructure in different areas of the securities markets.

**Attachment Two***Update on IOSCO Work on Long Term Investment***Background**

The IOSCO Board at its recent meeting recognized the important contribution IOSCO and its members can make to ensuring capital markets play a leading role in supporting long term investment in both growth and emerging and developed economies. The Board subsequently asked IOSCO Vice-Chairs, Mr. Ranjit Singh (SEC Malaysia) and Mr. Howard Wetston (OSC Ontario) to lead IOSCO's work in this area.

We are fully aware and are appreciative of the work done by the G30 Working Group on Long Term Finance as well as the G20 Study Group on Financing for Investments Workplan. We note the observations made in these reports that the availability of long-term financing is facing constraints including the decline in equity fundraising globally, as well as a shift in banking activities. In the recent decade, there has been a significant and disproportionate increase in intra-financial business, rather than non-financial sector client related activities.

We have also taken note that the G20 Study Group on Financing for Investment's Workplan had identified several core topics for further work, including capital markets, private sources of financing and the impact of recent global financial regulatory reforms. Furthermore, the G30 Working Group on Long Term Finance also identified as one of the core objectives to support the growing need for long-term financing is the development of debt and equity capital markets to promote a broad spectrum of financing instruments.

In this regard, capital markets have the ability to provide an effective source of long-term financing through, among others, equity financing, corporate bonds, securitization, SME financing, crowd funding, venture capital and the Islamic capital market. Further, institutional investors such as pension funds, insurance companies, mutual funds as well as sovereign wealth funds, are also increasingly becoming central players as providers of long-term capital given their higher propensity to invest in long term instruments.

**Proposed Work**

Given the increasing role that capital markets can and are expected to play in the provision of long-term financing for investment, a review will be undertaken by IOSCO to enable regulators and policy makers to have a better understanding of issues and challenges faced by the capital market, as well as opportunities for growth in this area. This will include detailed and in-depth work to analyse the state of play and regulatory factors influencing the long term financing through capital markets.

These topics are directly connected to IOSCO's objectives and mandate, and IOSCO has conducted several workstreams in the specific areas of corporate bond markets<sup>2</sup>, securitization<sup>3</sup>, institutional investors<sup>4</sup>, Islamic capital market<sup>5</sup> and is currently working on SME financing and mutual funds. The proposed work by IOSCO on long-term financing would therefore aim to pull together all these efforts and will be further augmented by a detailed analysis of issues within the capital market.

It is therefore envisaged that the work of IOSCO would enrich the global discussions and reinforce the growing importance of market based financing as a key source of long term financing in driving economic growth. Through this work, IOSCO has the opportunity to influence overall efforts to promote an enabling environment conducive for long-term financing.

The next IOSCO Annual Conference in Rio de Janeiro in September 2014 with its theme Market Based Financing for Global Economic Growth – A Forward Looking Approach - will be an opportunity to discuss and assess progress in these important areas.

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<sup>2</sup> IOSCO Report on Development of Corporate Bond Markets in the Emerging Markets, November 2011 <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD360.pdf>

<sup>3</sup>IOSCO Report on Global Developments in Securitisation Regulation, November 2012 <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD394.pdf>; [IOSCO Report on Securitization and Securitized Debt Instruments in Emerging Markets, October 2010](http://www.iosco.org/library/pubdocs/pdf/IOSCOPD334.pdf) <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD334.pdf>

<sup>4</sup> IOSCO Report on Development and Regulation of Institutional Investors in Emerging Markets, June 2012 <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD384.pdf>

<sup>5</sup> IOSCO Report on Islamic Capital Market Fact Finding Report, July 2004 <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD170.pdf>

**Attachment Three***Proposed IOSCO work on Crowd Funding*

Peer-to-peer lending and equity crowd funding are rapidly emerging in many markets as alternatives to increasingly scarce bank funding. They involve raising small amounts of money from a large number of individuals or organisations to meet a range of capital needs.

Governments see crowd funding as an innovative way to provide funding to SMEs, seed capital to start-up companies and ultimately economic growth.

Regulatory initiatives have been taken – or recently proposed - in a number of jurisdictions<sup>6</sup>. These initiatives raise important issues about the balance between investor protection and the role equity markets can play in supporting economic recovery and growth

Given these initiatives IOSCO sees the need to urgently develop guidance to encourage the development of consistent approaches to regulation of this activity.

IOSCO has, therefore, requested the Chair of its Committee on Investment Management, in collaboration with the Chairs of the Committee on Market Intermediaries and the Committee on Retail Investors, to draft a mandate to guide work in this area.

The mandate is expected to cover work and guidance in the following areas:

1. Retail investor protection;
2. Disclosure of risk;
3. Procedures for dealing with platform/intermediary failure;
4. Cross-border implications; and
5. Identification and mitigation of systemic risks posed by crowd funding.

We are aiming to finalise the mandate for Board approval by mid-December.

The mandate will be supported by exploratory work undertaken by the IOSCO General Secretariat on initiatives underway in member jurisdictions. A draft paper – expected to be completed in November, will set out the results of a regulatory mapping and data gathering exercise and will serve as an empirical basis for the development of this mandate. Additionally, we are planning to discuss the paper in the FSB's Financial Innovation Network (FIN) of the Standing Committee on the Assessment of Vulnerabilities in November.

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<sup>6</sup> Including Italy, the UK, France, the US, Canada, Australia and New Zealand).

**Attachment Four***Update on IOSCO Work on Cross-Border Regulation***Background**

Effective cross-border regulation is critical in the formation and flow of capital in our global securities markets, risk management across borders and ultimately in facilitating economic growth.

The need for work on effective cross-border regulatory activity has been highlighted in a variety of recent contexts. The OTC derivatives reform agenda has highlighted many of the issues created by crafting a global regime to regulate truly global markets using national and regional regulatory regimes. Industry has raised concerns about the impact of differences in, and duplication of, regulatory approaches to cross border activity and the cross border regulatory tools used to address these impacts. The FSB and the G20 have also flagged the role recognition of foreign regulatory regimes can play in addressing possible duplication of regulatory requirements.

There is also general acknowledgement that these issues will only increase in importance as emerging markets assume a greater place in world's securities markets and so increase the number of jurisdictions in which market participants will want to be active.

A Task Force to undertake work in this area was established in May 2013 following in principle approval by the Board earlier in the year. The Task Force is led by the CEO of the Hong Kong SFC, Mr. Ashley Alder and the Chairperson of the Swiss FINMA Ms. Ann Héritier Lachat.

The Task Force's mandate is to develop a toolbox of measures to regulate the activities of foreign firms and, if appropriate, to develop guidance about how these tools could be used by IOSCO members.

The mandate is intended to assist policy makers and regulators in -

- designing cross border regulatory tools;
- understanding the context in which those tools might be used in the best interests of investors; and
- addressing challenges faced in regulating securities market activity within borders and globally.

IOSCO is the logical forum to undertake the work proposed in this mandate. The development and implementation of domestic and regional measures that respond to transnational issues is, in fact, one of IOSCO's *raison d'être*. IOSCO considers transnational issues and develops standards (in the form of guidance, principles or recommendations) intended to encourage common and consistent approaches to global and cross border issues. IOSCO has developed *Objectives and Principles of*

*Securities Regulation*. IOSCO also recognizes, through the establishment of the Assessment Committee, its role in promoting greater consistency in implementation of its standards and highlighting the impact of differences in approaches to implementation.

We believe the work of the Task Force will not only be critical in engaging with current cross-border challenges, but looking forward, the findings will lay a sound, empirical basis for future approaches to global regulation in the securities markets.

### **An Update on Work To Date and Proposed Work**

A draft timetable and work plan for the Task Force is attached (**Annex B**).

The Task Force has drafted a questionnaire to IOSCO members about the techniques they have used, or are aware of, to address cross-border regulatory issues (including tools used in both regional and transnational groupings) (**Annex C**).

The questionnaire explores –

- Criteria used for allowing cross-border activities;
- Engagement and co-operation with foreign regulators;
- Processes for reviewing domestic and overseas requirements;
- Registration challenges;
- Review of the level of supervisory oversight and enforcement; and
- Implementation experience.

General feedback is also sought on the development and implementation of cross-border regulatory approaches including the role IOSCO might play in these processes.

The questionnaire was circulated in mid October with responses sought by mid-December.

Following the collation of survey responses, a consultation paper summarizing the findings of the survey will be issued with feedback sought from a variety of stakeholders during Q1 and Q2 2014. Consultation will also be supported by three industry roundtables held in Europe, Asia Pacific and the Americas. A final report is expected to be published at the end of Q2 2014.

We will provide updates to the FSB on the progress of this work.