

## IOSCO Events

### Annual Conference successfully takes place in Hong Kong

The vibrant financial centre of Hong Kong was the setting for the recent 31<sup>st</sup> IOSCO Annual Conference when the world's securities regulators came together in early June 2006 to discuss a range of current issues relevant to global financial services.

This year's Annual Conference was hosted by the Securities & Futures Commission (SFC) of Hong Kong for the first time and succeeded in attracting in excess of 650 delegates from more than 130 countries. This represented one of the most well attended IOSCO Annual Conferences and confirmed the trend established in recent years of the increasing importance that these conferences play to both securities regulators and market participants.

The Conference was officially opened by the Honourable Rafael S Y Hui; Acting Chief Executive Officer of the

Hong Kong Special Administrative Region, whose presence along with other high level dignitaries indicated a strong level of support for the ongoing work of regulators of global capital and securities markets.

In his opening remarks to the conference, Mr. Hui said that Hong Kong was deeply honoured to host the event. He also paid tribute to IOSCO by acknowledging that the organisation "has



*Martin Wheatley, Chairman of the Hong Kong SFC*

been instrumental in raising the standards of securities regulation".

The Chairman of the SFC, Mr. Martin Wheatley, confirmed the importance of this year's event by stating that: "As participants we had the opportunity to hear differing perspectives of market experts and regulators on issues that are of current interest. The subsequent debate on the options we face in addressing these issues confirms what a challenging era securities regulators currently find themselves in".

The IOSCO Secretary General, Mr. Philippe Richard joined other IOSCO office holders in commending the SFC of Hong Kong for their outstanding efforts in hosting the Annual Conference. Mr. Richard paid tribute to the SFC by noting that "their professionalism and dedication in hosting this year's event had been exceptional". ■

### IOSCO strengthens cross-border cooperation

During the Annual Conference in Hong Kong, the IOSCO Presidents Committee adopted a resolution that encourages members to examine the legal framework under which they operate in order to enable the freezing of assets derived from cross-border securities and derivatives violations.

Accordingly, those who break corporate and securities laws will be unable

to benefit from any financial gains made as a result of their illegal activities and conduct.

The resolution was adopted in response to the growing challenge posed by the increase in fraudulent activity and proceeds of fraud that cross borders, along with the absence of powers to freeze assets internationally.

In order to deprive law breakers of the proceeds of their misconduct, IOSCO hopes this initiative will encourage regulators to examine their domestic laws and identify mechanisms that can be developed in freezing assets.

A full copy of the resolution which was adopted by the Presidents Committee can be found on the IOSCO website. ■

## Further progress with the IOSCO MOU

IOSCO has revealed that the organisation has made substantial progress in expanding the coverage of the *IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information* (IOSCO MOU).

Adopted in May 2002, the IOSCO MOU represents one of the organisation's most significant contributions ever in the area of regulatory cooperation and effective cross-border enforcement.

There are now 34 members who have signed the IOSCO MOU. During the 2006 Annual Conference new signatories which were welcomed included the Financial Supervisory Authority of Denmark, the Dubai Financial Services Authority, the Israel Securities Authority and the Securities and Exchange Commission of Nigeria.

An additional 9 members have expressed their commitment in accordance with the Appendix B requirements to the IOSCO MOU. The most recent addition to the Appendix B listing is the Securities and Exchange Commission of Thailand. It was noted that the Israel Securities Authority is the first member to successfully remove all legal obstacles and make the transition from Appendix B.

In warmly welcoming the progress that has been made in this area, the Chairperson of the IOSCO Executive Committee, Ms. Jane Diplock noted: "The IOSCO vision is for all securities regulators to engage across borders for regulatory oversight and enforcement in a seamless, effective manner. This will deliver the positive benefits that IOSCO is striving for". ■

*The IOSCO Presidents Committee meeting in Hong Kong*



## IOSCO Committees at Work

### The Executive Committee

**The Executive Committee met in Hong Kong on Tuesday 6 June 2006 and was chaired by Ms. Jane Diplock who is also the Chairperson of the New Zealand Securities Commission. During the meeting, discussions took place on a range of important issues including the noting of progress in relation to the implementation of the IOSCO MOU.**

#### Dialogue with certain jurisdictions

IOSCO with the knowledge of the Financial Stability Forum has been engaged in a confidential dialogue with certain jurisdictions with which specific cooperation issues have been experienced. Particular attention is being given to those jurisdictions that play an important role in the global financial system.

The objective of this particular work is to assist each of the identified jurisdictions to make genuine improvements in the level of cooperation they are able to offer their international counterparts in relation to enforcement related information sharing.

The Executive Committee expressed satisfaction with the progress achieved to date in consultation with these jurisdictions and as a result will expand the group of jurisdictions which it is dealing with.

#### External Relations

During the Annual Conference, IOSCO re-affirmed its commitment to work closely with other international financial bodies including the Basel Committee on Banking Supervision (BCBS), International Association of Insurance Supervisors (IAIS), Bank for International Settlements (BIS), International Monetary Fund, World Bank and Financial Stability Forum (FSF). IOSCO believes that maintaining a network of active engagement improves the coordination of worldwide initiatives and results in better global securities regulation.

### **IOSCO Principles – Implementation Task Force (ITF)**

Substantial progress was noted in several areas including in the use of the *IOSCO Principles Assessment Methodology* and the implementation of the Principles among the members. The ITF also continues to provide advice to the IMF and World Bank on their use of the IOSCO Principles and Methodology.

Following the departure of Ms. Andrea Corcoran (CFTC) as Chairperson of the Implementation Task Force, members expressed their appreciation and gratitude for the many years of outstanding work which she had performed in this capacity. The Executive Committee has appointed CONSOB of Italy as represented by Mr. Carlo Biancheri to be the new Chairman of the ITF. ASIC as represented by Mr. Greg Tanzer was appointed as Deputy Chairman.

### **Executive Committee Office Holders**

Following elections for a new Executive Committee, members re-elected Ms. Jane Diplock, to the position of Chairperson of the Executive Committee. Meanwhile, Mr. Fulin Shang, was elected as Deputy Chair of the Executive Committee. Mr. Shang is the Chairman of the China Securities Regulatory Commission. ■

*Mr. Shang, Chairman of the CSRC was elected Deputy Chair of the Executive Committee*



## **The Technical Committee**

**The Technical Committee met in Hong Kong on Monday 5 June and was chaired by Mr. Michel Prada who is also the Chairman of the Autorité des marchés financiers of France. A range of issues were canvassed during the meeting.**

### **Task Force on Corporate Governance**

IOSCO is liaising with the Organization for Economic Cooperation & Development (OECD) to examine how different jurisdictions address important issues relating to the corporate governance process of companies listed on stock exchanges. In particular, the Task Force is assessing how different jurisdictions ensure that the boards of directors of listed companies can express independent judgment and how the interests of minority shareholders are protected.

The Task Force is co-chaired by the Comisión Nacional del Mercado de Valores (CNMV) of Spain and the Australian Securities & Investments Commission (ASIC).

### **Task Force on Non-Audit Services**

This Task Force is analyzing a range of issues related to quality audits and auditor independence. There is also a

focus on the issue of non-audit services offered to publicly listed audit clients and the potential impact of these services on auditor independence.

It is anticipated that a report on these issues will be released towards the end of 2006. The Task Force is chaired by ASIC.

### **Task Force on Credit Rating Agencies (CRAs)**

IOSCO has reconstituted a Task Force to review the codes of conduct that have been released by CRAs to determine their level of implementation of the IOSCO CRA Code. The review will in particular assist in assessing whether any aspects of the CRA Code need to be modified to better reflect market realities or better explained to help ensure more consistent compliance.

**Standing Committee on Multinational Disclosure and Accounting (TC SC1) chaired by Mr. Scott Taub (SEC USA)**

In October 2005, IOSCO approved a Statement of Principle for the development of a database in order to facilitate the sharing by securities regulators of regulatory decisions relating to the enforcement of International Financial Reporting Standards (IFRS). Such a database of information will provide a useful reference source for regulators on IFRS decisions and will facilitate coordination and convergence. IOSCO anticipates that the database will be fully operational during the second half of 2006.

TC SC1 has several additional mandates in progress, one of which is exploring whether the use of Special Purpose Entities (SPEs) warrants additional disclosure by issuers. This incorporates current accounting and non-financial statement disclosure requirements applicable to the use of SPEs along with the level of audit assurance required for this information.

**Standing Committee on the Regulation of Secondary Markets (TC SC2) chaired by Ms. Elisabeth Roegele (BaFin Germany)**

In March 2006, IOSCO issued a public consultation paper dealing with regulatory issues resulting from ex-

change evolution. This follows the trend of recent years whereby major exchanges around the world have converted into for-profit companies with broader shareholder bases. Submissions received as a result of the public consultation process are currently being considered. IOSCO anticipates that a final report outlining conclusions and recommendations will be released during the final quarter of 2006.

**Standing Committee on the Regulation of Market Intermediaries (TC SC3) chaired by Ms. Randee Pavalow (OSC Ontario)**

IOSCO has been encouraged by the positive response it has received from the financial services industry following the release of its paper on *Compliance Function at Market Intermediaries* during March 2006. The principles being promoted by IOSCO are based on the concept that compliance with securities laws, regulations and conduct of business rules is part of the essential foundation of sound and orderly markets. TC SC3 is pursuing work on another project related to information management in the context of conflict of interest.

**Standing Committee on Enforcement and Exchange of Information (TC SC4) chaired by Ms. Megan Butler (FSA UK)**

Apart from the ongoing work which it is doing in relation to the IOSCO MOU as well as in the dialogue with certain jurisdictions, this committee

also continues to monitor "boiler room" activity around the world and has recently established an ad hoc group to carry additional work on this issue. It aims to provide guidance on issues facing regulators in combating boiler room scams.

**Standing Committee on Investment Management (TC SC5) chaired by Mr. Hubert Reynier (AMF France)**

During 2005, IOSCO released "Examination of Governance for Collective Investment Schemes (CIS)" as a public consultation document. A final report on this topic has been approved following a consultation process in which comments received from the international financial community have been considered.

The related document entitled "Principles of Governance for Collective Investment Schemes: Independence Criteria, Empowerment Conditions and Functions to be performed by Independent Oversight Entities" has also recently been released for public consultation and will shortly be available on the IOSCO website.

**Technical Committee Office Holders**

During the meeting, members re-elected Mr. Michel Prada as Chairman of the Technical Committee. At the same time, Mr. Roel Campos was re-elected as Deputy Chairman of the Technical Committee. Mr. Campos is a Commissioner with the US Securities & Exchange Commission. ■



*The IOSCO Technical Committee meeting in session*



The Emerging Markets Committee met in Hong Kong on Monday 5 June and was chaired by Mr. Dogan Cansizlar, who is also the Chairman of the Capital Markets Board of Turkey. Among other matters, the Committee considered reports on the work of the various Working Groups.

## Working Group on Disclosure and Accounting (EMC WG1) chaired by the CNV of Argentina (Mr. Emilio Ferré)

WG1 continues to work closely with TC SC1 on a survey covering the requirements for internal control reporting. In broad terms the objective is to assess the legal framework for internal control reporting as well as the evaluation structures that are in place. It is also participating jointly in the non-audit services project.

## Working Group on Regulation of Secondary Markets (EMC WG2) chaired by the SC of Malaysia (Mr. Ranjit Ajit Singh)

WG2 is currently studying secondary market liquidity as this is an issue of growing concern to some EMC members. The purpose is to examine more closely the factors that impact and influence liquidity in emerging markets, with the aim of assisting regulators in assessing relationships between market liquidity and factors such as market structures, financial policies, regulatory framework, trading infrastructure and the breadth of a varied investor base. It is hoped to identify initiatives that could enhance liquidity.

## Working Group on Financial Intermediaries (EMC WG3) chaired by the SEC of Pakistan (Mr. Razi-ur-Rahman Khan)

WG3 is currently carrying out work to develop guidance for regulators in emerging market economies in relation to capital adequacy requirements for financial intermediaries. It is anticipated that a final report on these issues will be completed during the second half of 2006.

## Working Group on Enforcement and the Exchange of Information (EMC WG4) chaired by the SEC of Poland (Mr. Miroslaw Kachniewski)

WG4 has initiated work on the preservation and repatriation of property in cross-border enforcement cases which seeks to raise awareness within the EMC membership of a comprehensive survey done on this topic by the Technical Committee. WG4 is also carrying out work in the identification of obstacles preventing EMC members from committing to the IOSCO MOU.



*Mr. M. Damodaran of SEBI was elected as the new Chairman of the Emerging Markets Committee*

## Working Group on Investment Management (EMC WG5) chaired by the CVM of Brazil (Mr. Carlos Sussekind)

WG5 has recently finalized the results of the comprehensive survey which was undertaken to assess the state of development of CIS, including the related regulatory framework in the emerging markets of the world. The survey, one of the largest of this type, resulted in quantitative as well as qualitative assessments of the growth and development of the mutual fund industry in emerging markets. It should prove extremely helpful to IOSCO in identifying trends and other relevant issues in these markets. The survey will shortly be available for public release.

## Emerging Markets Committee Office Holders

At this meeting members elected Mr. M Damodaran to the position of Chairman of the Emerging Markets Committee. Mr. Damodaran is also Chairman of the Securities & Exchange Board of India. At the same time, Mr. Bassam K Saket was re-elected to the position of Deputy Chair of the EMC. Mr. Saket is the Executive Chairman of the Jordan Securities Commission.

In accepting his appointment, Mr. Damodaran paid tribute to his predecessor, Mr. Cansizlar, who had held the position of EMC Chairman since 2002. Mr. Damodaran said: "During his time as Chair of the EMC, Mr. Cansizlar has helped to facilitate the positive development of the regulatory framework governing emerging markets. On behalf of IOSCO, I place on record our thanks for his outstanding contribution to the organisation". ■

## Public Interest Oversight Board (PIOB)

During the IOSCO Annual Conference, delegates were privileged to hear from the Chairman of the Public Interest Oversight Board (PIOB), Mr. Stavros Thomadakis about developments with this relatively new body.

The PIOB is responsible for overseeing the public interest activities of the International Federation of Accountants (IFAC). The primary focus of the PIOB is the work of the independent standard-setting boards responsible for developing professional standards in the areas of audit and assurance, ethics and education.

In his address, Mr. Thomadakis noted “there are two reasons why it is important that there be a PIOB and that we do the best job possible. First, independent oversight of the process by which these standards are created is an important contributor to the restoration of public confidence in the quality of financial reporting flowing to the capital markets. Second, increased adoption and application of these international standards around the world will help to promote national and international financial stability”.

## Regional Committees

On 6 June 2006 all four IOSCO Regional Committees met and had the opportunity to discuss a broad range of current issues relevant to their regions. Elections also took place in all four Regional Committees and the following were elected:

- Mr. Musa Al-Faki, Director General of the Securities and Exchange Commission of Nigeria was elected as Chairman of the Africa & Middle East Regional Committee. Mme. Dounia Taarji, Director of the Conseil Déontologique des Valeurs Mobilières of Morocco, was elected Deputy Chairperson of the Committee while the Jordan Securities Commission was elected as the second member to represent this region on the Executive Committee.

- Mr. Thirachai Phuvanatanarubala, Secretary General of the Securities & Exchange Commission of Thailand was elected as Chairman of the Asia Pacific Regional Committee. The New Zealand Securities Commission was elected as the second member to represent this region on the Executive Committee.

- Mr. Eddy Wymeersch, Chairman of the Banking Finance and Insurance Commission of Belgium was elected as

Chairman of the European Regional Committee. The CNMV of Spain was elected as the second member to represent this region on the Executive Committee.

- Mr. Narciso Munoz, Chairman of the Comisión Nacional de Valores of Argentina was elected as Chairman of the Inter-American Regional Committee. The CVM of Brazil was elected as the second member to represent this region on the Executive Committee.

## SRO Consultative Committee (SROCC)

**The IOSCO SRO Consultative Committee met in Hong Kong on Tuesday 6 June 2006. This Committee comprises affiliate members representing self-regulatory organisations as well as securities and derivative markets in developed as well as emerging markets.**

During their meeting, the Committee finalized and released a Model Code of Ethics which aims to strengthen a culture of ethical behaviour within the financial services industry.

The Committee also elected Mr. Tatsuo Watanabe, into the role as Chairman of the SROCC. Mr. Watanabe is the Vice Chairman of the Securities Dealers Association of Japan. In accepting the role, Mr. Watanabe said that he would “seek a way for self-regulatory organisations to further apply their significant resources to the betterment of global securities markets”.



*Mr. Tatsuo Watanabe of the SDA of Japan was elected as the new Chairman of the SROCC*

During the IOSCO Annual Conference in Hong Kong, delegates were fortunate to hear from a number of high-profile speakers in the Panel Discussions which this year focused on a range of current regulatory issues including “International Financial Reporting Standards”, “Hedge Funds”, “Bond Markets”, and “Challenges Related to the Implementation of the IOSCO Principles and of the IOSCO MOU in emerging markets”.

All four panel discussions were exceptionally well received by participants with several of them featuring lively “Question & Answer” sessions following the presentations from the panelists. Many delegates remarked afterwards that the panel discussions proved highly informative and practical.

## Admission of New Members

During the 2006 IOSCO Annual Conference, the following was admitted as a new **Associate** Member:

- ◆ Forward Markets Commission of India

In addition, the following were admitted as new **Affiliate** Members:

- ◆ Brazilian Association of Financial Institutions
- ◆ CFA Institute of the United Kingdom
- ◆ Dubai International Financial Exchange
- ◆ Doha Securities Market of Qatar
- ◆ London Stock Exchange

## General Secretariat News

### Forthcoming IOSCO Events

- Implementation Task Force (ITF)** in Madrid, 12 July 2006
- Inter-american Regional Committee** in Buenos Aires, 7 September 2006
- Emerging Markets Committee** in Shanghai, from 19-21 September 2006
- Seminar Training Program** in Madrid, from 2-6 October 2006
- IOSCO & Financial Stability Institute** Joint Seminar on Basel II trading book related issues in Madrid, from 7-8 November 2006
- Executive Committee, Technical Committee, EMC Advisory Board Meetings** in London, from 14-15 November 2006
- Technical Committee Conference** in London, from 16-17 November 2006
- SROCC** in Madrid, from 27-28 November 2006

### Recent Publications

The list of publicly released IOSCO reports is posted in the Library Section of the IOSCO Internet Home Page at [www.iosco.org](http://www.iosco.org)

Among the more recently published material:

- IOSCO 2005 Annual Report
- First Public Report of the PIOB
- Examination of Governance for Collective Investments Schemes – June 2006
- Model Code of Ethics, SRO Consultative Committee - June 2006
- Compliance Function at Market Intermediaries - March 2006.
- Consultation Report on Exchange Evolution - March 2006
- Consultation Report on Hedge Funds - March 2006