



International Organization of Securities Commissions
 Organisation internationale des commissions de valeurs
 Organização Internacional das Comissões de Valores
 Organización Internacional de Comisiones de Valores
 المنظمة الدولية لهيئات الأوراق المالية

Board Priorities - IOSCO work program for 2019

IOSCO's objectives are to enhance investor protection, maintain fair, efficient and transparent markets and address systemic risk. In 2016, the IOSCO Board adopted a new priority setting process to ensure that the policy committees closely align their work with Board approved priorities for IOSCO.¹ In doing so, the Board agreed to five focus areas, namely (A) structural resilience of capital markets, (B) data gaps and information sharing, (C) new insights into investor protection,² (D) the role of securities markets in capital formation and (E) financial innovation.

On the basis of risks, trends and other issues identified in its annual Risk Outlook, the IOSCO Board has identified five priority issues for 2019, namely (1) crypto-assets, (2) artificial intelligence and machine learning, (3) passive investing and index providers, (4) retail distribution and digitalization and (5) market fragmentation. This note summarizes ongoing and planned initiatives relating to these priorities as well as other work IOSCO will continue in 2019 within the five focus areas.³

IOSCO's work

Crypto-Assets: Concerns have emerged about trading, custody and settlement, accounting, valuation, intermediation as well as the exposure of investment funds to crypto-assets. These concerns have implications for investor protection. In 2019, IOSCO will focus on how platforms where crypto-assets are traded are regulated and will also examine regulation of investment funds with exposures to crypto-assets. IOSCO will create a portal through which its members can access and share information on enforcement relevant to crypto-assets and will continue work on initial coin offerings (ICOs). Drawing on the resources of its ICO Consultation Network,⁴ IOSCO will continue to develop an ICO Support Framework to assist members to consider how to address domestic and cross-border issues stemming from ICOs

¹ See https://www.iosco.org/annual_reports/2016/01_BoardChairReport/01.html

² Retail investor protection and education are of core importance to IOSCO in developing its overall priority setting framework and agenda.

³ Noting that some of this work, both planned and ongoing, will likely extend beyond 2019 into 2020.

⁴ The ICO Consultation Network was established in 2017. It provides a medium through which members discuss their experiences and bring their concerns in relation to ICOs, including any cross-border issues, to the attention of fellow regulators

that could undermine investor protection. IOSCO will also consider ways to provide investor education and material for retail investors who may wish to invest in crypto-assets.

- Consultation report on crypto-asset trading platforms
- Report to the G-20 on crypto-asset trading platforms
- Final IOSCO Report on crypto-asset trading platforms

Market fragmentation in securities and derivatives markets: Market fragmentation is a high priority issue for the 2019 Japanese G20 Presidency. IOSCO will analyze potentially harmful market fragmentation, including that attributable to cross-border regulation, and will take stock of members' progress in assessing and deferring to foreign regulatory regimes since the publication of its 2015 Report on Cross-Border Regulation,⁵ and any further policy implications.

- Report to G-20 on market fragmentation

Artificial Intelligence and Machine Learning (AIML): Artificial intelligence and machine learning systems are being increasingly used in financial services. Firms use these techniques in a number of areas, including to optimize order execution strategies, portfolio management and research. During 2019, IOSCO will examine the supervision of market intermediaries, including asset managers, that use AIML and examine ethical challenges that may arise from the use of AIML in securities markets (see 'Fintech' section below). IOSCO also intends to convene a conference on technology applied to securities market enforcement together with AMF Quebec.

- Consultation report on systems and controls surrounding the general use of artificial intelligence and machine learning by market intermediaries, including asset managers.
- Conference on technology applied to securities market enforcement

Passive Investing and Index Providers: IOSCO will initiate a review of the impact of passive investing on markets. As of 2017, passive asset management strategies were estimated to represent USD8 trillion globally, representing 20% of assets under management.⁶ Questions have been raised about whether the growth of passive investment affects the price discovery process, the allocation of capital and corporate governance. IOSCO will also undertake a conduct-focused mandate on the role of index providers in asset management.

Retail Distribution and Digitalization: The rapid growth in digitalization, especially social media, has changed the way financial products are promoted and distributed. This change has raised questions about the usage of social media and the digitalization of investment product distribution by regulated entities and new types of financial intermediaries. IOSCO will conduct work on these issues including consideration of whether it needs to expand on its recently published OTC Leveraged Products Report to take account of these developments.

Asset Management: IOSCO will continue to work on consistent measures of leverage in investment funds. IOSCO will also undertake further work on Exchange Traded Funds (ETFs), following earlier discovery work that considered potential investor protection and market integrity issues. IOSCO will collaborate with the FSB on its work on potential financial stability risks arising from the possible impact on market liquidity of ETFs and high frequency

⁵ <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD507.pdf>

⁶ https://www.bis.org/publ/qtrpdf/r_qt1803j.htm

trading where evidence was lacking, or available studies were inconclusive. IOSCO and FSB will conduct a joint workshop in this area.

- Final Report on consistent measures of leverage in investment funds
- Joint IOSCO/FSB Workshop on ETFs

Fintech: IOSCO has established a network to facilitate exchanges among members on their experiences regarding Fintech developments. The Network has identified initial priority areas for deeper analysis: (1) Distributed Ledger Technology (DLT) where the Network will analyze practical “use case” applications in securities markets, (2) Regtech where the Network will, in the first instance, consider the benefits and challenges of adopting machine-readable rule books, and (3) Lessons Learned from Innovation where the Network will take stock of the experiences of its members in designing Innovation Support Frameworks such as Innovation Hubs or Sandboxes and consider what lessons can be learned from them. The Network is also exploring the potential risks, benefits and opportunities of AML, with a focus on ethics and trust and has organized a roundtable with industry participants on the ethical use of AML techniques in capital markets.

- Roundtable on ethics in AI/ML

Outsourcing and Third-Party Providers: With developments in technology, firms are increasingly turning to third party providers and outsourcing critical services or material activity to them. IOSCO will evaluate whether the existing IOSCO Principles on Outsourcing adequately address these developments.

- Consultation report on Outsourcing and Third-Party Providers
- Final report on Outsourcing and Third-Party Providers

Cyber: The IOSCO Cyber Task Force is reviewing the level of adoption of the three most prominent standards and guidance in this area, namely the CPMI-IOSCO Guidance, the NIST framework, and the ISO standards. It is also taking into account the G7 Fundamental Elements of Cyber Security. The Task Force is carrying out a gap analysis to examine how IOSCO members are applying these standards/guidance.

Financial Benchmarks: National and international efforts on alternative reference rates to replace certain major rates (IBORs) and enhancing contractual robustness have continued with an increasing pace and intensity. While considerable progress has been achieved thus far, IOSCO has launched a new project to communicate the potential impact of the discontinuation of USD LIBOR by informing stakeholders about the main transition steps planned in the benchmarks reform. This will entail explaining how they could use alternative rates and highlighting the need to include fallbacks in existing contracts. Such communication and outreach is intended to reach various jurisdictions that depend on USD LIBOR.

Sustainable Finance: Regulators and participants in the securities markets are seeking to understand how sustainability issues may relate to the markets in which they operate. IOSCO has recently established a Network to encourage exchanges among members on their experiences regarding initiatives and regulatory approaches in this area; initially this Network will undertake a survey and a stocktake of national initiatives taken by securities regulators and other international organizations. IOSCO’s Growth and Emerging Markets Committee (GEMC) is also undertaking work on sustainable finance in emerging markets, including

challenges impacting the development of sustainable finance in capital markets and the role of securities regulators.

- GEMC Report on sustainable finance in emerging markets and the role of securities regulators
- Sustainable Finance Network Report

Efficient Resiliency: The implementation of OTC derivatives reforms by national regulators has led to changes in the structure of the OTC derivatives markets which may have introduced some inefficiencies in the market for market participants. IOSCO will investigate these potential inefficiencies and will analyze the effects of OTC reforms on market structure and the practical effects of different trade reporting schemes.

- Roundtables with industry participants

Implementation Monitoring: IOSCO's Assessment Committee will finalize its consistency review on suitability requirements for complex financial products and will also finalize its report on IOSCO Standards Implementation Monitoring (ISIM) on the review of IOSCO Principles on Secondary and Other Markets for publication.⁷ It will begin new consistency reviews on business continuity plans (for intermediaries and trading venues), money market fund reforms and securitization reforms.

- Final Report on the review of IOSCO Principles on Secondary and Other Markets
- Final Report on Suitability Requirements for Complex Financial Products

Margin Requirements: The BCBS and IOSCO published the standard margin requirements for non-centrally cleared derivatives in September 2013, which covers requirements for both variation margin and initial margin. As implementation proceeds towards full phase-in of the requirements, the Working Group on Margin Requirements will focus its attention to outstanding implementation issues and broader considerations.

Financial Market Infrastructures (FMIs): IOSCO and CPMI published the Principles for Financial Markets Infrastructures (PFMI) in 2012. These two bodies are now engaged in joint work relating to Central Counterparty (CCP) resilience, recovery and resolution, implementation monitoring of the PFMI, cyber resilience of FMIs and digital innovation in the context of FMIs.

- CPMI-IOSCO consultation report on default management auctions

Data Privacy: To address the impact of the recently enacted European General Data Protection Regulation (GDPR) in the context of enforcement cooperation and the information exchanges under the IOSCO Multilateral Memorandum of Understanding (MMoU), as well as other information exchanges including in a supervisory context, IOSCO has engaged with the European Data Protection Board (EDPB) to ensure the continuity of information exchanges between European Economic Area (EEA) Financial Supervisory Authorities and non-EEA Financial Supervisory Authorities. Under the GDPR, personal data can be transferred from an EEA country to a third country when appropriate safeguards are provided. One of the ways to provide the safeguards is by an Administrative Arrangement (AA) between public authorities,

⁷ <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD561.pdf>

and IOSCO and ESMA have drafted such an AA. The EDPB has since rendered its Opinion⁸ that this AA ensures appropriate safeguards. EEA and non-EEA securities regulators who exchange personal data on a regular basis will now take the necessary steps to enter into the AA.

- Implementation of the Administrative Arrangement

Financial reporting: The Monitoring Board continues to monitor and reinforce the IFRS Foundation's public interest oversight function, while preserving the independence of the IASB, and to assist in promoting the continued development of IFRS as a high-quality set of global accounting standards. As part of its role in reviewing the IFRS Foundation Trustees' oversight of the IASB, the Monitoring Board plans to continue dialogue with the Trustees on the review of the IASB's due process arrangements and on achieving consistent application of IFRS, in particular in relation to the recent standards on financial instruments, revenue, leases and insurance.

Audit: The Monitoring Group (which is a group of international financial institutions and regulatory bodies committed to advancing the public interest in areas related to international audit standard setting and audit quality) is working on a revision of the governance arrangements for the setting of international auditing and ethical standards, with the aim of strengthening the international audit standard-setting system to be fit for the future and more responsive to the public interest. IOSCO is actively participating in this work.

- Consultation paper on recommendations to reform audit-related standards

Use of Behavioural Insights in retail investor protection: Following from IOSCO's report on the *Application of Behavioural Insights in Financial Literacy and Investor Education Programmes and Initiatives*⁹ in collaboration with the OECD, IOSCO will focus on regulation and oversight, in particular in relation to the design of disclosures and online interfaces.

- Final Report on the *Use of Behavioural Insights in Retail Investor Protection*

⁸ https://edpb.europa.eu/our-work-tools/our-documents/opinion-board-art-64/opinion-42019-draft-administrative-arrangement_en

⁹ <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD603.pdf>