



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 2020

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 the entire organization. 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, (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 2019 Risk Outlook, the IOSCO Board identified five priority issues for 2019 within these five focus areas, 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. Given their ongoing importance, IOSCO will continue to focus on these issues in 2020. In addition, on the basis of its 2020 Risk Outlook, the IOSCO Board identified a further priority issue for this year, namely the rising levels of corporate debt and the potential resulting risks in capital markets.

This 2020 work program provides an update on the initiatives that IOSCO is undertaking in relation to the existing priority issues as well as an overview of the work that IOSCO will be initiating with regard to the new priority.

In addition, IOSCO will continue its efforts in other areas which are not explicitly covered above. Examples of these work streams include addressing issues related to the IOSCO Sustainable Finance Network, Fintech Network and matters of special importance to growth and emerging markets (GEM). At the same time, IOSCO will continue its collaboration with other standard setting bodies as well as carry out implementation monitoring reviews and capacity building programs for its members.

IOSCO's work

Corporate Debt and Leveraged Finance: The low interest rate environment has encouraged issuers to increasingly access funding through debt markets while investors' continued search for yield has contributed to higher demand for corporate debt. At the same time, as banks have diminished their lending activity, private equity and other lending investment funds have expanded their market financing activities. These developments may be contributing to the decline in overall credit quality of issuances and to the increase in collateralized loan

obligations (CLOs). IOSCO has concerns about the potential conduct-related risks that may exist in these markets which could also have implications for market integrity in the event of an economic downturn. In that context, IOSCO will focus its attention on the risks created by current origination practices, chains of intermediation in the corporate debt market and associated conflicts of interest. IOSCO will, as appropriate, share relevant insights from its work and collaborate closely with other bodies that are currently investigating potential financial stability concerns in these markets.

- Report on conduct-related issues in the leveraged loans and CLO markets.

Crypto-Assets: IOSCO identified concerns relating to crypto-asset trading, custody and settlement, accounting, valuation and intermediation. In response, IOSCO released a consultation report on “Issues, Risks and Regulatory Considerations Relating to Crypto-Asset Trading Platforms”¹ in May 2019 which sets out key considerations that are intended to assist regulators in evaluating these platforms within the context of their regulatory frameworks. IOSCO will publish its final report in February 2020. IOSCO is also finalising a regulatory risk review for the benefit of its members examining potential regulatory considerations around investment funds with exposures to crypto-assets. This review is examining a range of issues including custody, valuation, liquidity, underlying asset trading, financial promotions, and disclosure and transparency. It will be completed in early 2020.

In addition, in August 2019, IOSCO provided its members an ICO Support Framework to assist them in considering how to address domestic and cross-border issues stemming from ICOs that could undermine investor protection. In 2020, the ICO Network will continue to develop the Support Framework to ensure that it remains up-to-date. This will involve expanding the scope of the materials to cover a broader set of ICO lifecycle activities and issues that range beyond the current focus on primary issuance activities (for example, trading and distribution of tokens).

Finally, IOSCO is also examining regulatory issues arising from so-called “Global Stablecoins” as they relate to securities markets given recent developments within this area. Work to date has focused on analyzing which IOSCO Principles and Standards could apply to Global Stablecoins. IOSCO’s Fintech Network delivered a report to the IOSCO Board in October 2019. A version of the report with its main findings will be published in early 2020. The analysis in this Report will be further developed based on market developments in 2020 and its insights will contribute to the broader international debate in this area.

- Final report on issues, risks and regulatory considerations relating to crypto-asset trading platforms.
- Regulatory risk review for IOSCO members examining concerns around investment funds with exposures to crypto assets.
- Report on regulatory issues related to Global Stablecoins.

Market fragmentation in securities and derivatives markets: Market fragmentation was a high priority issue for the 2019 Japanese G20 Presidency and IOSCO delivered a report on Market Fragmentation and Cross-border Regulation in June. The report identified areas where harmful

¹ <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD627.pdf>

market fragmentation may be taking place and highlighted practical steps that could further strengthen cooperation between regulatory authorities and assist regulators in addressing the adverse effects of market fragmentation. These proposed next steps included identifying good practices that can assist regulators when they establish processes for deference and deepening supervisory cooperation. In 2020, IOSCO will intensify its efforts on both of these proposals.

- Report on Good Practices in Relation to Processes for Deference.
- Review use of supervisory colleges and other mechanisms of cooperation to enhance supervisory cooperation.

Artificial Intelligence and Machine Learning (AIML): Last year, IOSCO explored how AIML is being used in capital markets and the risks that may be emerging as a result of this growing trend. Through its Fintech Network, IOSCO issued a report to its members that explored the potential risks, benefits and opportunities of AIML, with a focus on the ethical use of AIML techniques in capital markets. IOSCO also engaged with the industry to gain a better understanding of potential areas of risks where AIML is being used by market intermediaries and asset managers. As a result, IOSCO has developed proposed guidance for regulators on issues to consider when regulating market participants that use AIML. IOSCO will be consulting on these measures in early 2020 with a final report expected by the end of the year.

- Consultation Report on the Use of Artificial Intelligence and Machine Learning by Market Intermediaries and Asset Managers.
- Final Report on the Use of Artificial Intelligence and Machine Learning by Market Intermediaries and Asset Managers.

Passive Investing and Index Providers: IOSCO is developing a thematic analysis of the impact of the growth of passive investing on equity capital markets. The analysis will (i) provide an overview of the increase in passive investing and its drivers, (ii) examine in more depth its impacts on market efficiency and corporate governance and (iii) the consequences of the interplay between active and passive funds with regard to how investors collectively pay for efficient and effective equity markets. The report to the IOSCO Board in late 2020 will discuss these analyses and identify potential implications of passive investing for financial regulation.

IOSCO has also launched a review of conduct-related issues in relation to Index Providers. In 2020, it will survey its members and engage with stakeholders to explore issues related to the role of asset managers in relation to indices and index providers, and the role and processes of index providers in the provision of indices (including the potential impact of administrative errors on funds and identifying potential conflicts of interest that may exist at the index provider in relation to the fund). The findings of this work will be delivered in a report to the IOSCO Board in late 2020.

- Thematic Analysis of the impact of the growth of passive investing on equity capital markets.
- Report on Conduct-Related Issues in Index Provision.

Retail Distribution and Digitalization: As mentioned in the 2019 Work Plan, the rapid growth in digitalization, especially social media, has changed the way financial products are marketed and distributed, providing new opportunities for domestic and cross-border offerings. IOSCO organized an industry roundtable to understand the wider issue of online marketing and

distribution of all investment products and services including new and high-risk products. In 2020, IOSCO will build on its recent work on OTC Leveraged Products and intends to develop a toolkit of policy measures to address and mitigate the risks posed by online cross-border marketing and distribution. The toolkit will also contain guidance on enforcement approaches.

- Consultation Report on Online Marketing and Distribution, including Cross-Border Aspects, to Retail Investors.
- Final Report on Online Marketing and Distribution, including Cross-Border Aspects, to Retail Investors.

In addition to the above, IOSCO will continue its focus on systemic risk in capital markets across its different work streams and engage effectively on this topic with the Financial Stability Board and other relevant bodies.

On the *asset management topic*, IOSCO will continue to work on several important issues, particularly related to liquidity risk management, gathering data related to measures of global leverage in investment funds and further analysis of the ETF marketplace. It will:

- Begin a thematic review of the implementation of the 2018 Liquidity Risk Management Recommendations
- Formulate plans for data collection to measure leverage trends in funds.
- Continue analysis of the ETF market on both market-facing (arbitrage and trading) and investor related issues, including any updates to the 2013 ETF Principles, as necessary.