



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
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المنظمة الدولية لهيئات الأوراق المالية

IOSCO Board Priorities - Work Program 2021-2022

IOSCO's objectives are to enhance investor protection, maintain fair, efficient, and transparent markets, and address systemic risk. The IOSCO Board's priority-setting process is designed to ensure that the work of policy committees is closely aligned with Board approved priorities for the organization. For these purposes, 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.

Based on the risks, trends, and vulnerabilities identified in its 2020 Risk Outlook¹ – not least those stemming from the ongoing impacts of the COVID-19 pandemic in securities markets – the IOSCO Board has agreed to this two-year work program for 2021-2022. The work program encompasses work with respect to two new priorities, namely:

- Financial stability and systemic risks of non-bank financial intermediation activities (NBFI); and
- Risks exacerbated by the COVID-19 pandemic – misconduct risks, fraud, and operational resilience.

With concerns persisting about the continuing impact of the pandemic on global economic activity and the macro-financial outlook, the response to the pandemic will remain a core focus of this 2021-2022 work program. In 2020, IOSCO and its members demonstrated their commitment, as the effects of the COVID-19 pandemic unfolded, to ensuring that capital markets continued to function in an open and orderly manner for the benefit of all market participants.² In the next two years, IOSCO will sustain that commitment through the development of initiatives to maintain the resilience of capital markets under these two new priorities and continue to coordinate its work and information sharing among its members in their efforts to support markets through the recovery phase from the pandemic.

With respect to sustainability-related issues in capital markets, IOSCO will continue to focus, under the stewardship of its Sustainable Finance Task Force (STF), on three main areas covering (i) sustainability-related disclosures for issuers, (ii) sustainability-related disclosures for asset managers, including greenwashing, and (iii) credit rating agencies (CRAs), environmental, social, and governance (ESG) ratings, and ESG data providers. IOSCO had also earlier identified six priorities for 2020 across its focus areas, namely, (1) corporate debt and leveraged finance, (2) crypto assets, (3) market fragmentation in securities and derivatives markets, (4) artificial intelligence and machine learning, (5) passive investing and index providers, and (6) retail

¹ The IOSCO Risk Outlook serves as IOSCO's horizon scan of emerging regulatory issues across securities markets. It provides the Board with a substantive basis from which to prioritize work for the year ahead.

² <https://www.iosco.org/news/pdf/IOSCONEWS559.pdf>

distribution and digitalization. The work program provides an update on the initiatives undertaken in relation to each of these six priorities.³ Given their ongoing importance, IOSCO will continue to focus on these issues until the agreed deliverables are completed.

IOSCO will also further its efforts in other important areas, including matters of special importance to growth and emerging markets (GEM),⁴ the ongoing implications for securities markets of financial innovation and digitalization developments through the ICO and Fintech Networks, its collaboration with other standard setting bodies, as well as implementation monitoring, capacity building for its members, and supporting investor education as a critical pillar of investor protection.⁵

This two-year work program will be reviewed and refreshed as appropriate at end-2021.

³ As well as shaping IOSCO's forward looking agenda, the pandemic impacted IOSCO and its members in terms of resourcing some of the priorities set out in the 2020 Work Program. Many priority workstreams were put on hold to reallocate resources to respond to the crisis. As such, deadlines for some of the projects that featured in the 2020 Work Program have been extended to allow for this delay.

⁴ IOSCO will initiate through its GEM Committee a thematic analysis to gain better insights into the characteristics of emerging markets as an asset class and the broader ecosystem that impact these markets.

⁵ IOSCO will progress the implementation of the World Investor Week program and other projects covering investor education matters.

IOSCO's work for 2021-2022

I. Financial stability and systemic risks of NBF activities

COVID-19 struck the world in early 2020, bringing about a global public health crisis and an unprecedented shock to the global economy. While financial markets – supported by exceptional measures taken by authorities – generally proved resilient, the COVID-19 induced market stresses in March and April 2020 (“COVID-19 Induced Market Stresses”) underscored the interconnectedness of capital markets with the wider financial system and brought into focus potential structural and regulatory vulnerabilities in NBF activities.

In early 2020, the IOSCO Board established the Financial Stability Engagement Group (FSEG), a Board-level group set up to enhance IOSCO’s approach to financial stability issues, including with regard to its engagement with the Financial Stability Board (FSB), international standard setting bodies, and other organizations.⁶ FSEG has led IOSCO’s COVID-19 crisis response related to financial stability issues, including IOSCO’s contribution of its expertise on issues related to NBF activities under discussion at the FSB.

In addition to FSEG-sponsored projects, including several that will be undertaken in coordination with the FSB, IOSCO will also embark in 2021-2022 on progressing several other key pieces of work of relevance in this area through its Board committees.

a. IOSCO work under the FSEG (including work in connection with the FSB NBF Workplan)

- ***Policy work on Money Market Funds (MMFs) resilience:*** In the second half of 2020, FSEG developed a diagnostic report analyzing the events that occurred in the MMF sector during the COVID-19 Induced Market Stresses based on supervisory data provided by members overseeing the largest MMF domiciles.⁷ The report was published in November 2020. In 2021, IOSCO and its members will build on the findings of this report by contributing their expertise to FSB policy work relating to MMFs and the underlying short-term funding markets.
- ***Liquidity risk and its management in open-ended funds (OEFs):*** IOSCO and the FSB will conduct a joint analysis of the availability, use and impact of liquidity risk management tools for OEFs by late-2021. As part of this effort, FSEG will conduct an analysis of OEFs that experienced redemption pressures during the COVID-19 Induced Market Stresses.⁸ This report will be informed by industry outreach, including the IOSCO Assessment Committee’s (AC) overall Assessment Methodology and Survey questionnaire to regulators and market participants as part of the AC’s review of the 2018 Liquidity Risk Management (LRM) Recommendations,⁹ to be issued in early 2021 (see further details below). The final joint IOSCO/FSB report will also be relied on by the FSB to inform its subsequent assessment of the effectiveness of the FSB recommendations on liquidity mismatch in OEFs.
 - FSEG analysis of OEFs that experienced stress during the COVID-19 Induced Market Stresses by Q2 2021.
 - Joint report to the IOSCO Board and the FSB on liquidity risk and its management in OEFs by late-2021.

⁶ Co-Chaired by the AMF France and US CFTC

⁷ <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD666.pdf>

⁸ Work-stream co-chaired by the US SEC and AMF France

⁹ <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD590.pdf>

- **Corporate bond market microstructure and liquidity provision:** An FSEG-led workstream will focus on examining the liquidity, structure, and resilience of corporate bond markets during the COVID-19 Induced Market Stresses.¹⁰ A first phase of work will develop a data-driven diagnostic review that will contribute IOSCO’s expertise to the FSB’s Workplan. A second phase will analyze market participants’ behavior during the COVID-19 Induced Market Stresses and assess any vulnerabilities of the bond market structure that this analysis highlights.
 - FSEG diagnostic report to the IOSCO Board and the FSB examining market microstructure and liquidity provision in corporate bond markets by mid-2021.
 - FSEG report on market participants’ behavior during the COVID-19 Induced Market Stresses by Q4 2021.
- **Margin dynamics:** This work will examine the dynamics of margin calls in centrally cleared and, where data is available, uncleared derivatives markets during March-April 2020. Building on the understanding of margin frameworks, the work will look at the liquidity management preparedness of market participants and their ability to monetize assets to meet margin calls. IOSCO will undertake this project jointly with the Committee on Payments and Market Infrastructures (CPMI) and the Basel Committee on Banking Supervision (BCBS).
 - Joint IOSCO, CPMI, and BCBS report to the FSB on margin dynamics in cleared and uncleared markets by late 2021.
- **Fund valuations:** directly linked to the work on OEF liquidity risk, IOSCO is also planning to conduct exploratory work on fund valuations in 2022. This work will investigate the conditions around the shift to mark-to-model portfolio valuations and fair valuation of certain underlying securities where reliable market prices are not available, building on the experience and observations of the COVID-19 Induced Market Stresses. In that context, the methodologies used by other market participants will be explored where relevant. The findings of this work will be delivered in a report to the IOSCO Board.
 - Report on valuations in funds.
- **Data collection and monitoring:** drawing on the efforts of its Data Working Group,¹¹ FSEG will continue to support IOSCO’s data needs in analyzing the impacts of the pandemic in securities markets and has contributed to the FSB’s critical nodes monitoring exercise.¹²

b. Other financial stability and investment funds projects

- **Corporate Debt and Leveraged Finance:** IOSCO will complete its analysis, both from an investor protection and a financial stability perspective, to develop a report on conduct-related issues in the leveraged loans and collateralized loan obligations (CLO) markets by end-2021. Following this effort, the focus of the work may be broadened to consider issues of conduct in the wider securitization markets in 2022.
 - Report on conduct-related issues in the leveraged loans and CLO markets.
- **Assessment Committee Review of IOSCO’s Liquidity Risk Management Recommendations:** As mentioned above, IOSCO’s Assessment Committee will initiate a thematic review of liquidity risk management in open-end funds to assess member

¹⁰ The FSEG Corporate Bond Market Liquidity working group is chaired by the UK FCA.

¹¹ The FSEG Data Working Group is chaired by the US CFTC.

¹² FSEG has provided input into the FBS’s critical nodes monitoring exercise drawing on the inputs of its data expert sub-working groups on investment funds and CCPs data.

implementation, and industry adoption of IOSCO's 2018 LRM Recommendations. IOSCO plans to issue the final report for this review in 2022.

- Assessment Committee thematic review report.
- **Exchange-traded Funds (ETFs):** IOSCO will continue its analysis of the ETF market in 2021 and complete its findings with respect to market-facing (arbitrage and trading) and investor-related issues. As part of this endeavor, IOSCO will review the behavior of ETFs under stress, drawing on observations and evidence gathered over the course of the first half of 2020. IOSCO will consult on possible policy proposals in late-2021 / H1 2022.
 - Report to the IOSCO Board on ETF findings and policy proposals by Q3 2021.
 - Consultation report on ETFs in late 2021 / H1 2022.
- **Leverage in Investment Funds:** Building on its 2019 Leverage Report,¹³ IOSCO will gather data related to measures of global leverage in investment funds. A first global leverage report based on data gathered via a standardized template from members as of 31 December 2020 is due to be published by the end of 2021.
 - Report on global leverage in investment funds.

II. Risks exacerbated by the COVID-19 pandemic – misconduct risks, operational resilience, and fraud

With the onset of the COVID-19 pandemic, governments enforced lockdowns, leading many firms and regulators to transition to remote working arrangements. This transition, as well as cyber-security and outsourcing arrangements, has posed challenges to firms, trading venues, and regulators in ensuring that appropriate conduct and compliance are maintained. Firm-level internal surveillance and control functions are not typically designed to operate in a remote working environment. Moreover, some businesses are facing challenges to operational resilience or having difficulty operating under business continuity plans (BCP) for prolonged periods.

The COVID-19 pandemic has created economic and social situations, such as job losses, financial strains, physical and social isolation, and active online engagement, which can magnify retail investors' susceptibility to scams and frauds. On 22 December 2020, the Retail Market Conduct Taskforce (RMCTF) published a report on initial findings and observations about the impact of COVID-19 on retail conduct issues.¹⁴ Building upon the RMCTF's report, IOSCO will further explore ways to enhance investor protection.

- By 2022, delivery of COVID-19 impact related reports on:
 - i. Misconduct risks.
 - ii. Operational, cyber-security and BCP risks.
 - iii. Fraud and scams.

The RMCTF will lead work on (i) and (iii), while IOSCO's Committee 2 on Secondary Markets and Committee 3 on Market Intermediaries will initiate joint work on (ii).

¹³ <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD645.pdf>

¹⁴ <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD669.pdf>

III. Sustainable Finance

Through each of the STF's three main areas of focus, namely (i) sustainability-related disclosures for issuers, (ii) sustainability-related disclosures for asset managers (including greenwashing) and (iii) CRAs, ESG ratings, and ESG data providers, IOSCO will contribute to the urgent goal of improving the completeness, consistency, and comparability of sustainability reporting. In doing so, the STF will further explore international collaboration on pathways to mandatory disclosure beyond comply or explain requirements; engage with the International Financial Reporting Standards (IFRS) Foundation to ensure that any proposals stemming from its consultation paper on the potential to set up a sustainability standard setting board meet securities regulators' expectations both in terms of content and governance; and advance discussions regarding the establishment of an assurance framework for sustainability disclosures.

- By end-June 2021, delivery of report on sustainability-related disclosures for issuers.
- By end-2021, delivery of reports on:
 - Sustainability-related disclosures for asset managers, including greenwashing.
 - ESG ratings and ESG data providers.

IV. 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 the impacts, if any, of increased passive investing on market efficiency and corporate governance and (iii) investigate the consequences of the interplay between passive and other types of funds for how investors collectively pay for efficient and effective equity markets. The final thematic analysis report on the impact of the growth of passive investing on equity capital markets will be submitted to the IOSCO Board in mid-2021. The report will draw on intelligence gathered at industry roundtables to be arranged in 2021.

IOSCO has also launched a review of conduct-related issues in relation to Index Providers. In 2020, it surveyed its members, and in 2021 it will further 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 index providers in relation to funds). The findings of this work will be delivered in a report to the IOSCO Board in late 2021.

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

V. Market fragmentation in securities and derivatives markets:

This issue was identified as a high priority issue under the 2019 Japanese G20 Presidency and IOSCO delivered a report on Market Fragmentation and Cross-border Regulation¹⁵ in June 2019. The report identified areas where harmful market fragmentation may be taking place and practical steps that could further strengthen cooperation between regulatory authorities and assist regulators in addressing the adverse effects of market fragmentation. Proposed next steps included identifying good practices that can assist regulators when they establish processes for deference and deepening supervisory cooperation. In 2020, IOSCO delivered its Report on Good

¹⁵ <https://www.iosco.org/news/pdf/IOSCONEWS533.pdf>

Practices in Relation to Processes for Deference.¹⁶ In 2021, IOSCO will undertake a review on the use of supervisory colleges and other mechanisms of cooperation, including MoUs, with the aim of identifying good practices that authorities can use in establishing and conducting supervisory activities.

- Report on Good Practices on use of supervisory colleges.
- Annual report to the IOSCO Board from the Affiliate Members Consultative Committee (AMCC) on Market Fragmentation.

VI. *Crypto-Assets (including Stablecoins):*

In 2021, the ICO Network will continue to develop the ICO 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).

In 2020, IOSCO examined regulatory issues arising from so-called “Global Stablecoins” as they relate to securities markets, given recent developments within this area. IOSCO’s Fintech Network delivered a report to the IOSCO Board in October 2019 and published the main findings in March 2020. In 2021, IOSCO will continue to contribute to the discussion at the international level and support the global regulatory agenda related to Stablecoins.

- Follow-up work to the FSB Regulatory Issues in Stablecoins report: a review of IOSCO standards against the FSB High-level Recommendations.¹⁷

VII. *Artificial Intelligence and Machine Learning (AIML):*

IOSCO continues to explore how AIML is being used in capital markets and the risks that may be emerging from the use of these technologies. IOSCO is seeking to gain a better understanding of potential areas of risk 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 consulted on these measures in 2020. The final report on the Use of Artificial Intelligence and Machine Learning by Market Intermediaries and Asset Managers is expected to be published in Q2 2021.

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

VIII. *Retail Distribution and Digitalization:*

The rapid growth in digitalization, especially via social media, has changed the way financial products are marketed and distributed, providing new opportunities for domestic and cross-border offerings. Building on its work on over the counter (OTC) Leveraged Products, IOSCO is developing a set of policy measures to address and mitigate the risks posed by online cross-border marketing and distribution. The measures will also contain guidance on effective enforcement approaches. The final report on Online Marketing and Retail Distribution will be published by end Q3 2021.

- Final Report on Online Marketing and Retail Distribution

¹⁶ <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD659.pdf>

¹⁷ In October 2020, the FSB published a final report on regulatory issues relating to Stablecoins, which sets out ten high-level recommendations for the regulation, supervision and oversight of global stablecoin arrangements.