HUMAN RIGHTS AND THE FINANCIAL CRISIS
Perspectives on causes and responses
Tajinder Singh
Deputy Secretary General, IOSCO
IOSCO : A BRIEF INTRODUCTION

• IOSCO is recognized as the International Standard setter for Securities Regulation
• IOSCO Objectives:
  • Protecting investors
  • Ensuring that markets are fair, efficient and transparent
  • Reducing systemic risk
• 120 + jurisdictions, more than 95% of world capital markets;
• Growth and Emerging Markets (GEM) : 86 members
• IOSCO Principles are one of the 12 key standards and codes recognised as key to sound financial systems
• IOSCO MMOU recognized as a benchmark for international cooperation and enforcement- 95 signatories
STRUCTURE OF THE PRESENTATION

• What were the issues in the Crisis?
• How are we addressing these issues?
• What are other risks that are coming up as we address these?
• How are we addressing those other risks?
• What is IOSCO’s role in all this?
• What does this mean for human rights?
LEARNING FROM THE CRISIS-LOOKING AT WHAT HAPPENED

• Too big to fail
• Resolution
• Over The Counter (OTC) derivatives- lack of transparency led to nervousness and freezing of markets
• Problematic mortgage standards, securitization-originate to distribute model, over-reliance on Credit Rating Agencies (CRAs)
• Risk management and corporate governance
LEARNING FROM THE CRISIS-
ADDRESSING WHAT HAPPENED

• Increase in capital and liquidity requirements for banks
• OTC derivatives: reporting to Trade Repositories, central clearing, platform trading, standardization, margin & capital requirements; Legal Entity Identifiers
• Key attributes for Resolution Regimes
• Loans, securitization: Skin in the game, better mortgage underwriting standards, reducing reliance on CRAs; CRA oversight
• Too big to fail: identification of “Systemically Important Financial Institutions (SIFIs)” starting with Banks
ISSUES ARISING FROM THE CRISIS RESPONSE - AND OTHERS

• Shifting of risks from banking to non banking
• Other institutions could be Too Big To Fail
• Financial Market Infrastructures, especially Central Counter Parties (CCPs) with OTC Derivatives reforms
• HFT, “flash crash”, commodities...
• Cross-border issues; extraterritoriality
• Accounting convergence
• Implementation, implementation, implementation!
ADDRESSING THESE OTHER ISSUES

- Shadow banking- strengthening regulation and oversight- integrated view
- Too big to fail- identification of such institutions, policy measures
- Resolution- Key attributes for resolution regimes- where normal liquidation procedures are not adequate
- Central Counter Parties (CCPs) and other Infrastructures: New Principles
- High Frequency Trading, commodities: New principles
- **Implementation**: peer reviews- thematic and country, Financial Sector Assessment Programmes
- Cross-border; extraterritoriality: work in progress
So what is IOSCO’s role in all this?
IOSCO’s approach

• Increased role of capital markets
  • Bank deleveraging, Governments’ ability constrained
• Therefore increased role of securities regulation
• Rebuilding trust and confidence essential for capital markets
• IOSCO’s role:
   Trust in the financial systems – safety and soundness
   Regain confidence of investors in the markets
• Strong corporate governance needed
• Back up by strong enforcement and sanctions
How does IOSCO work?

• **Examining Emerging Risks**: Committee on Emerging Risks, IOSCO Research Dept, other Committees

• **Policy and Standard Setting**:
  Standing Committees and Task Forces

• **Implementation**:
  Assessment Committee, Screening Group for MMoU, others

• **Inclusiveness and Outreach**:
  Emerging Markets Committee, Regional Committees, SRO Consultative Committee, consultation, outreach to stakeholders
IOSCO: Rebuilding trust in the financial system

- Working with the G20, Financial Stability Board and other Standard Setting Bodies

- **OTC Derivatives:**
  - IOSCO report on Trading of OTC Derivatives (2011)
  - IOSCO-CPSS Report on Reporting and Aggregation (2011)
  - IOSCO report on Mandatory clearing (2012)
  - IOSCO report on Derivative Market Intermediaries (2012)
  - IOSCO-BCBS consultative report on Margin Requirements (2013)
  - IOSCO-CPSS Principles for Financial Market Infrastructure (2012); assessment methodology and disclosure framework (2012);”
  - IOSCO-CPSS working on Recovery and Resolution of FMIs and on authorities access to TR data
  - Global LEI was a recommendation of IOSCO-CPSS data report; IOSCO on Executive Committee of LEI ROC
  - Co-chairing FSB OTC Derivatives Working Group and working with other SSBs (ODCG)

(All Reports available at [www.iosco.org/library](http://www.iosco.org/library))
Rebuilding trust in the financial system...

- **Shadow banking**
  - IOSCO recommendations on Money Market Funds (2012)
  - IOSCO recommendations on securitization (2012)
  - Working with FSB on “other shadow banking entities”, securities lending and repos...

- **IOSCO Principles on Disclosure requirements for Asset Backed Securities**

- **Resolution**: IOSCO consultative report on protection of Client assets; Resolution of Financial Market Infrastructures

- **Financial Benchmarks**: to ensure that robust governance requirements are put in place by benchmark administrators to protect the integrity of the Benchmark determination process and ensure that conflicts of interest are appropriately addressed

- **CRAs**: Revising IOSCO CRA Code of Conduct; supervisory colleges

- Working with FSB on methodology for identification of **Non bank SIFIs**-collective investment schemes, hedge funds, intermediaries ...

- HFT, technological changes on market integrity and efficiency, dark pools
Rebuilding trust in the financial system...

**Implementation:**
- IOSCO Assessment Committee: peer review of OTC Derivatives, country peer reviews, thematic peer reviews of systemic risk principles
- Financial Market Infrastructures: implementation monitoring by CPSS-IOSCO
- Commodities principles- Review by IOSCO in 2012
- Reports on MMFs, PRAs, securitization commit to implementation monitoring reviews in 2 years time

**Cross-border issues:** new IOSCO mandate

**Emerging Risk** discussions now a focus item IOSCO-wide: Board, Regional Committees, Emerging Markets Committee (GEM), Policy Committees, Committee on emerging risks
Stronger global financial systems: emerging markets

• By 2050, emerging markets will make up more than 50% of world GDP; 9 of emerging markets today will be among the 30 largest economies
• Recognition of role of Emerging Markets- EMC, now GEM Committee
• Even more need for global standards and harmonized implementation
• Capacity building and technical assistance
• IOSCO EMC work on Corporate bond markets and development of institutional investors
• Working on SMEs- not only an emerging market issue
Regaining Investors’ Trust: Investor Protection and Enforcement

- Previously stated measures are also for investor protection- e.g. protection of client assets
- Disclosure and Transparency- natural tool for securities regulators
- **New IOSCO Committee on Retail Investors set up this month**
- IOSCO program on investor education
- New focus on **behavioural economics**
- Suitability Standards for Complex Financial Products
- **Retail Structured Products**
- Joint work with other Standard Setters through Joint Forum: Point of Sale Disclosure
- IOSCO **investor alerts** portal
- **Study of Sanctions** regimes
- **Use of Multilateral Memorandum of Understanding for Enforcement and Cooperation**
IMPLICATION FOR HUMAN RIGHTS

- Working cooperatively towards a more resilient financial system through stronger international standards and risk identification
- Regaining investors’ trust: Investor protection - through investor education, disclosure and transparency
- Strong focus on emerging market development and capacity building
- Strong enforcement is also necessary
- The end result is more trust in the system
- This should encourage capital formation and economic development, and reduce incidence on the common man
- This should address, at least partially, the effects of the crisis and its response on the realization of human rights
THANK YOU