



OICU-IOSCO

HUMAN RIGHTS AND THE FINANCIAL CRISIS

Perspectives on causes and responses

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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 FMI 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)

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