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IOSCO publishes recommendations in response to the financial crisis in Emerging Markets

The International Organization of Securities Commissions (IOSCO) Emerging Markets Committee (EMC) has published a consultation report entitled [*Impact on and Responses of Emerging Markets to the financial crisis*](#). The conclusions of the Report, which was prepared by the EMC Chairman's Crisis Task Force (Task Force), are drawn from the results of a survey of EMC jurisdictions which assessed the impact of the financial crisis on members' markets and their regulatory responses. It also includes recommendations designed to address current vulnerabilities in EMC members' jurisdictions and provide the basis for future sound regulatory approaches.

Mr Guillermo Larrain, Chairman of the Emerging Markets Committee, said:

“The current financial crisis has had a greater than expected impact on the members of the Emerging Markets Committee, as financial shocks have been transmitted with ease through the global capital markets. This was due, in part, to the increased integration of emerging markets into the global financial system, combined with regulatory systems that were ill-prepared to tackle increasingly sophisticated international and domestic markets operations.

“Our initial survey has shown that policy responses by emerging market regulators were similar in nature to the policy reactions in developed markets. This demonstrates that the financial systems in emerging and developed markets are gradually converging. It is of interest however that, the imposition of trading halts in securities markets were a form of intervention that appear to have been unique to emerging markets regulators. In light of this, an analysis of this policy

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tool will be carried out by the EMC Working Group on the Regulation of Secondary Markets in the months ahead.

“The survey also showed that priorities have shifted towards improving regulatory approaches and capacities and to improve application, and enforcement, of regulatory frameworks and conduct of business rules. The EMC will gradually address these challenges in its work program for the months and years ahead.

“This crisis has presented emerging markets’ regulators with the opportunity to engage in a fundamental rethink on how they structure their markets. Central to this is the development of regulatory principles, based on propriety, integrity and transparency, which will enable their markets to withstand future economic shocks while supporting the development of emerging capital markets in a well managed and sustainable fashion.”

The Report provides an overview of the experiences of EMC members in responding to the financial crisis, given their different levels of development and the degree of impact of the crisis on their markets. The Report identifies the key regulatory and supervisory challenges facing EMC securities regulators in the current environment and sets out recommendations to address these challenges.

Further work and investigation by the Task Force will be required in a number of areas to form a more complete picture of the impact of the ongoing crisis. This will underpin the development of best practices and standards for EMC regulators.

RECOMMENDATIONS:

The recommendations that the report has developed, if implemented by EMC jurisdictions according to their needs, will ensure that they are in a strong position to respond to the G-20 expectations regarding global regulatory reform and ensure that their regulatory systems are in a position to deal with the ongoing implications of the financial crisis.

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The Report makes the following recommendations for securities regulators to follow in addressing the effects of the crisis:

- 1) **Ensure regulatory frameworks conform to international principles.** Programmes such as those conducted by the World Bank and International Monetary Fund can assist in assessing the alignment of national regulatory frameworks against these principles;
- 2) **Enhance capacity and review approach to regulation.** Recent events have highlighted problems of regulatory governance and of operational risk in the supervisory processes of national regulators;
- 3) **Promote greater inclusion of emerging market authorities on regulatory matters.** Emerging Market perspectives must be effectively considered in all aspects of international policy development ranging from standard-setting to global supervisory activities;
- 4) **Ensure proper sequencing between local market development and international financial integration and liberalization.** Regulators need to ensure adequate financial supervision. For example, higher standards of prudential supervision should precede liberalization;
- 5) **Improve prudential regulation and supervision.** Prudential regulation concerning the financial soundness of individual firms needs to be done in conjunction with supervision over how practices at firms may contribute to systemic risk. Rules must also come with appropriate sanctions and responses for deficiencies at critical risk levels; and
- 6) **Work closely with industry groups concerning corporate governance and risk management.** Industry groups indeed have an important role in dealing with the underlying causes of the crisis. It is unreasonable to expect supervisors to work alone in dealing with the underlying crisis. What is important is that industry groups work closely and openly with authorities to decide on necessary actions and standards to adopt. Ensuring their independence from vested interests.

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In addition, the report highlights further work that IOSCO can undertake to enhance its role with regard to assisting EMC members:

- **Assist members to enhance their regulatory capacity.** IOSCO to take the lead in providing technical training programmes in areas such as market surveillance, intermediary supervision and systemic risk assessment;
- **Form specific task forces to undertake thematic work.** IOSCO could form specific task forces that examine and assess systemic stability, compliance with international standards and best practices, capacity building as well as surveillance, supervision and enforcement;

This may include among others, a study the viability of circuit breakers, closure of markets, trading halts, crisis management arrangements, measures to regulate over-the-counter trades and derivatives in emerging markets and implementation of risk-based supervision models; and

- **Facilitate greater information sharing among regulators.** There must be global arrangements to facilitate systemic risk surveillance and the framing of an appropriate response to major market disruptions. Securities regulators need to ensure that they co-ordinate their activities and co-operate on joint surveillance of the financial system with banking and insurance regulators.

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NOTES FOR EDITORS

1. The [*Impact on and Responses of Emerging Markets to the financial crisis – Consultation Report of the Emerging Markets Committee of IOSCO*](#) is available on its website.
2. IOSCO is recognized as the leading international policy forum for securities regulators. The organization's membership regulates more than 95% of the world's securities markets and IOSCO is the international cooperative forum for securities regulatory agencies. IOSCO members regulate more than one hundred jurisdictions and its membership is steadily growing.
3. The [Emerging Markets Committee](#) is a specialised working group established by IOSCO's Executive Committee, representing the world's emerging financial markets. It endeavors to promote the development and improvement of efficiency of emerging securities and futures markets by establishing principles and minimum standards, preparing training programs for the staff of members and facilitating exchange of information and transfer of technology and expertise.
4. Mr. Guillermo Larrain, Chairman of the [Superintendencia de Valores y Seguros](#) of Chile, currently acts as Chairman of the Emerging Markets Committee.
5. IOSCO aims through its permanent structures:
 - to cooperate together to promote high standards of regulation in order to maintain just, efficient and sound markets;
 - to exchange information on their respective experiences in order to promote the development of domestic markets;
 - to unite their efforts to establish standards and an effective surveillance of international securities transactions;
 - to provide mutual assistance to promote the integrity of the markets by a rigorous application of the standards and by effective enforcement against offenses.

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