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International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
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IOSCO Launches its First Securities Markets Risk Outlook

The International Organization of Securities Commissions (IOSCO) today published the [*IOSCO Securities Markets Risk Outlook for 2013-2014*](#). The report highlights important trends, vulnerabilities and risks in securities markets that may be of concern from a systemic perspective.

The Outlook is the result of a joint effort between the IOSCO Research Department and the Committee on Emerging Risks (CER), which is comprised of senior researchers, chief economists and risk officers of almost 30 securities markets regulators from around the world. The information and data were drawn from extensive consultation with experts, industry and other market participants; a survey to regulators, industry and academics; roundtables; and robust data analysis and literature review.

The Outlook is the first published edition of an annual series. Its aim is to provide IOSCO members with the information they need to adopt a forward looking approach in dealing with potential vulnerabilities and risks to global securities markets and the global financial system as a whole.

The four main risks it identifies and analyzes in depth relate to the following:

- 1. Risks related to low interest rate environment.** Expansionary monetary policies have reduced interest rates to the point that real rates are at times negative. While these policies may help stimulate the real economy, spill-over effects may create potential risks for securities markets. A search for yield is turning investors towards leverage products such as CDO's and leveraged real estate investment funds.
- 2. Risks related to collateral management.** In response to global policy requirements, demand from investment firms for high quality collateral has increased significantly. More generally, bank holding companies with over the counter (OTC) dealer operations must locate high-quality collateral to meet initial and variation margin requirements for their OTC trades. Additionally, central banks have been absorbing collateral to provide needed bank funding. This growing

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demand has altered the balance of collateral in the system, diminishing availability of high-quality collateral and could impact pricing.

- 3. Risks related to derivatives markets:** OTC derivatives markets have undergone significant reform since the financial crisis. This reform entails the mandatory clearing of derivative contracts through central counterparties (CCPs). CCPs are designed to reduce systemic risk in the derivatives market by reducing counterparty risk. But shifting the risk from bilateral OTC contracts to a single point of infrastructure is a challenging balancing act.
- 4. Risks related to capital flows of emerging markets:** Emerging Market Economies have experienced significant capital inflows in the post-crisis era. Debt securities and non-bank lending have overtaken foreign direct investment and banking lending as the main source of these capital inflows. After the announcement of the tapering of the expansionary monetary policies of the FED, a sudden reversal in capital inflow occurred, highlighting the need for further structural reforms aimed at making securities markets more resilient.

The Chair of the IOSCO Board, Greg Medcraft, presented the Risk Outlook in London. Accompanying him were IOSCO Secretary General David Wright, the Vice-Chair of the Growth and Emerging Markets Committee, Bert Chanetsa, the Chair of the Committee on Emerging Risks, Carlos Tavares, and the Chair of the IOSCO Africa/Middle-East Regional Committee, Arunma Oteh. The Head of the IOSCO Research Department, Werner Bijkerk, provided a brief description of the four main risks in the report.

Speaking of the Outlook, Mr. Medcraft said: *I see it as a great example of IOSCO being proactive, forward looking and ahead of the curve in assisting us to achieve our objectives of protecting investors, ensuring markets are fair, efficient and transparent and reducing systemic risk.*

He added: *I would urge all IOSCO members and policy makers globally to carefully reflect on the Outlook's observations and understand – and act on – the implications of the trends and risks it identifies for their markets.*

Background to the Report:

Following the outbreak of the current financial crisis, IOSCO adopted a new strategic direction that emphasized the need for securities regulators to identify, monitor and manage systemic risks. To that end, IOSCO established a research function comprised of a Research Department at the General Secretariat and the CER.

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The Outlook represents one aspect of IOSCO's new role in the assessment and mitigation of global systemic risks. Its launch comes at a time when the world is moving inexorably towards a more market-based, interconnected, financing model, as credit institutions face higher capital requirements, constraining their ability to lend.

In this context, strong, transparent and appropriately regulated securities markets are essential to the sound functioning of the global economy and its recovery.

IOSCO recently published the report [Cyber-crime, securities markets and systemic risk](#). Going forward, it will publish reports on crowd funding, corporate bond markets and incentive structures in supervision.

NOTES FOR EDITORS

1. IOSCO is the leading international policy forum for securities regulators and is recognized as the global standard setter for securities regulation. The organization's membership regulates more than 95% of the world's securities markets in more than 115 jurisdictions and it continues to expand.
2. The IOSCO Board is the governing and standard-setting body of the International Organization of Securities Commissions (IOSCO), and is made up of 32 securities regulators. Mr Greg Medcraft, chairman of the Australian Securities and Investments Commission, is the chair of the IOSCO Board. The members of the IOSCO Board are the securities regulatory authorities of Argentina, Australia, Belgium, Brazil, Chile, China, France, Germany, Hong Kong, India, Italy, Japan, Korea, Malaysia, Mexico, Morocco, the Netherlands, Nigeria, Ontario, Pakistan, Portugal, Quebec, Romania, Saudi Arabia, Singapore, South Africa, Spain, Switzerland, Trinidad and Tobago, United Kingdom and the United States.
3. The Growth and Emerging Markets Committee is the largest Committee within IOSCO, representing 75 per cent of the IOSCO membership. Mr. Ranjit Ajit Singh, Chairman, Securities Commission, Malaysia, and Vice Chair of the IOSCO Board, is the Chair of the GEM. The Committee endeavors to promote the development and greater efficiency of emerging securities and futures markets by establishing principles and minimum standards, providing training programs and technical assistance for members and facilitating the exchange of information and transfer of technology and expertise.
4. IOSCO aims through its permanent structures:

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- to cooperate in developing, implementing and promoting adherence to internationally recognized and consistent standards of regulation, oversight and enforcement in order to protect investors, maintain fair, efficient and transparent markets, and seek to address systemic risks;
- to enhance investor protection and promote investor confidence in the integrity of securities markets, through strengthened information exchange and cooperation in enforcement against misconduct and in supervision of markets and market intermediaries; and
- to exchange information at both global and regional levels on their respective experiences in order to assist the development of markets, strengthen market infrastructure and implement appropriate regulation.

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