MEDIA RELEASE

International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
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IOSCO issues report on order routing incentives as part of effort to protect investors

The Board of the International Organization of Securities Commissions (IOSCO) today published its Final Report on *Order Routing Incentives*, which provides an overview of the practices used by market regulators regarding incentives for order routing that may influence how intermediaries treat their clients.

The report examines the regulatory conduct requirements for brokers or firms to manage conflicts of interest associated with routing orders and obtaining best execution. It assesses how these requirements interact with market practices in different jurisdictions to shape order routing incentives and how these incentives influence the behavior of intermediaries towards their clients. Such incentives may include, for example, discounts or rebates designed to direct order flow to one particular venue or to channel payments from one intermediary to another to receive their order flow.

IOSCO´s work on order routing incentives forms part of its ongoing effort to protect investors, promote market liquidity and efficiency, and enhance price transparency in financial markets.

To prepare the report, IOSCO conducted a survey of members on current and/or publicly proposed regulatory initiatives involving incentives that may influence the behavior of market intermediaries in different jurisdictions. In December 2016, it issued the *Report on Order Routing Incentives* for public consultation. None of the four comment letters it received proposed substantive changes to the report.

Among various monetary and non-monetary order routing incentives, the report focuses on the following three primary types of incentive arrangements or commercial practices:

1. Monetary incentives paid or received by brokers to or from third parties;
2. Internalization and use of affiliated venues that may reap commercial benefits for a broker; and
3. Provision of goods and services bundled with execution by brokers, such as research.

All respondents to the consultation welcomed the report and stressed the importance of the conduct issues in connection with order routing incentives. Most agreed with IOSCO´s conclusion that no further work was required at this stage, arguing that existing regulation or imminent reforms (e.g., in the EU under MiFID II) adequately address conduct risks linked to order routing incentives.

NOTES TO THE 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 34 securities regulators. Ashley Alder, the Chief Executive Officer of the Securities and Futures Commission (SFC) of Hong Kong, is the Chair of the IOSCO Board. The members of the IOSCO Board are the securities regulatory authorities of Argentina, Australia, Belgium, Brazil, China, Egypt, France, Germany, Hong Kong, India, Indonesia, Ireland, Italy, Jamaica, Japan, Kenya, Malaysia, Mexico, Nigeria, Ontario, Pakistan, Peru, Quebec, Saudi Arabia, Singapore, South Korea, Spain, Sweden, Switzerland, the Netherlands, Turkey, the United Kingdom, and the United States of America.

3. The Growth and Emerging Markets Committee is the largest Committee within IOSCO, representing close to 80 per cent of the IOSCO membership, including 11 of the G20 members. Ranjit Ajit Singh, Chairman of the Securities Commission Malaysia and Vice Chair of the IOSCO Board, is the Chair of the GEM Committee. The Committee brings members from growth and emerging markets together and communicates members' views and facilitates their contribution across IOSCO and at other global regulatory discussions. The GEM Committee's strategic priorities are focused, among others, on risks and vulnerabilities assessments, policy and development work affecting emerging markets, and regulatory capacity building.

4. IOSCO aims through its permanent structures:

- 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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