MEDIA RELEASE

International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores
المنظمة الدولية لهيئات الأوراق المالية

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IOSCO examines regulatory-driven market fragmentation and considers how to enhance cross-border cooperation

The Board of the International Organization of Securities Commissions today published a report that examines instances of regulatory-driven fragmentation in wholesale securities and derivatives markets and considers what actions regulators can take to minimize its adverse effects.

The report, titled *Market Fragmentation and Cross-border Regulation*, focuses on market fragmentation that arises as an unintended consequence of financial regulation. It provides examples of market fragmentation that IOSCO members consider to be significant and potentially harmful to the oversight and supervision of financial markets.

The report also examines the progress made by IOSCO members in using deference, and the regulatory mechanisms and tools associated with this concept (e.g., passporting, substituted compliance, recognition/equivalence). In doing so, the report follows up on a 2015 IOSCO report on cross-border regulation and seeks to identify remaining challenges that can restrict cross-border activities.

Regulators have become increasingly aware of the risks associated with unintended market fragmentation and are cooperating more among themselves to mitigate its effects through deference and its associated tools. Bilateral arrangements in the form of MoUs continue to be a common tool used by regulators, particularly with respect to information exchanges. Regulators also have developed novel processes to work multilaterally to the benefit of the markets they oversee.

Nevertheless, several challenges remain and strengthening cooperation between authorities could further assist in addressing adverse effects on the financial system stemming from market fragmentation. IOSCO's concerns about the risks of fragmentation are shared by other international organizations and policy makers. These include the G20, which has made market fragmentation a top priority, and the Financial Stability Board, which also published today a paper on market fragmentation.

The report proposes potential measures that IOSCO and relevant national authorities could explore to mitigate the risk, and potential adverse effects, of fragmentation on global securities markets. These measures include ways to foster further mutual understanding of one another's legislative frameworks, deepen existing regulatory and supervisory cooperation and consider whether there are any good or sound practices that can be identified regarding deference tools. The IOSCO Board will decide on its approach to these next steps in the second half of this year.

J. Christopher Giancarlo, Chairman of the US Commodity Futures Trading Commission, co-chair of the IOSCO work on market fragmentation said: "*The use of deference can be a powerful way to mitigate the risks arising from fragmentation in cross-border trading markets. While its use has increased, the report highlights areas where further improvements could be sought while allowing members to continue choosing their own underlying tools to achieve it.*"

Jun Mizuguchi, Deputy Commissioner for International Affairs at the Japan Financial Services Agency, also an IOSCO co-chair on this work said: "*Since the financial crisis, well-intentioned regulatory implementation has sometimes led to unintended fragmentation of markets. In the spirit of the G-20 leaders in Pittsburgh, this report welcomes the advances made by regulators in deferring to one another but encourages us towards further, smoother, cross-border collaboration.*"

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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. Mr. Ashley Alder, the Chief Executive Officer of the Securities and Futures Commission 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, Japan, Kenya, Korea, Malaysia, Mexico, Ontario, Pakistan, Panama, Portugal, Quebec, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, the United Arab Emirates, the United Kingdom, and the United States of America (both the U.S. Commodity Futures Trading Commission and U.S. Securities and Exchange Commission). The Chair of the European Securities and Markets Authority and the Chair of IOSCO's Affiliate Members Consultative Committee are observers to the Board.

3. The Growth and Emerging Markets (GEM) Committee is the largest committee within IOSCO, representing close to 80 per cent of the IOSCO membership, including 11 of the G20 members. Dr. Obaid Al Zaabi, Chief Executive Officer, Securities and Commodities Authority, United Arab Emirates, 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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