



Keynote Presentation

Regulation and the Strategic
Importance of Research

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Disclaimer

The views and opinions presented in this presentation are of the presenter only and do not necessarily reflect the views and opinions of IOSCO or its individual members.

Agenda

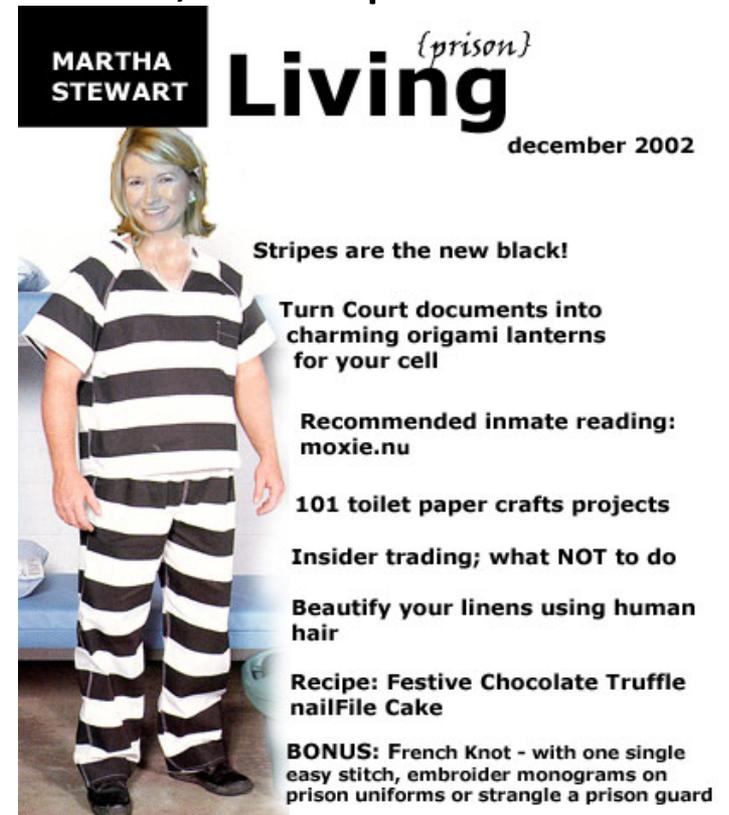
1. Why does regulation matter?
2. How does society see us, regulators?
3. Strategic role of research in IOSCO
4. Current research projects

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Why does regulation matter?

If you perform harmful or illegal activities, rules provide the basis for punitive action:



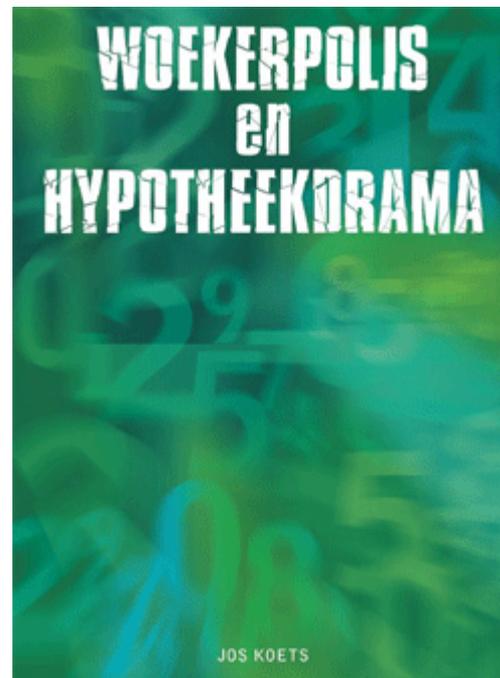
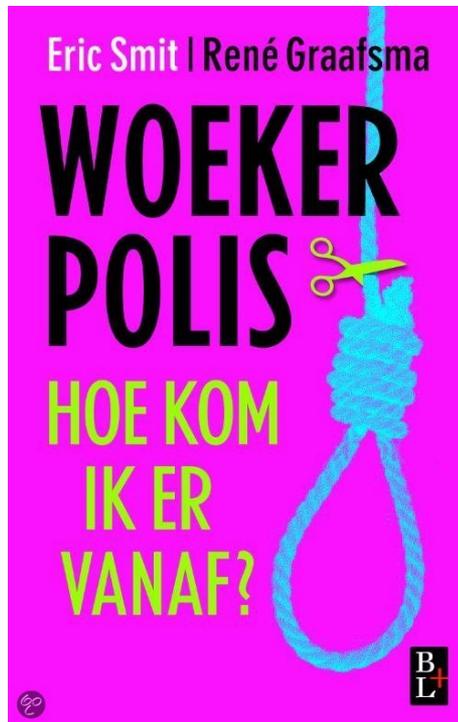
MARTHA STEWART *{prison}* **Living** december 2002

Stripes are the new black!

- Turn Court documents into charming origami lanterns for your cell
- Recommended inmate reading: moxie.nu
- 101 toilet paper crafts projects
- Insider trading; what NOT to do
- Beautify your linens using human hair
- Recipe: Festive Chocolate Truffle nailFile Cake
- BONUS:** French Knot - with one single easy stitch, embroider monograms on prison uniforms or strangle a prison guard

Why does regulation matter?

...Or a national scandal...with billions of compensation, class actions, and more rules and regulatory powers:



Why does regulation matter?

Interested stakeholders:

- Firms
- Participants
- Investors
- The State
- Politicians
- Regulators
- Press
- All of us
- Capital at low cost, reputation
- Level playing field, no illegal players
- Understand and get good products
- Execution of laws, budget
- No scandals, cost
- Salary, social esteem
- Scandals, sleeping regulator
- It's our economy

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How does society see us, regulators?

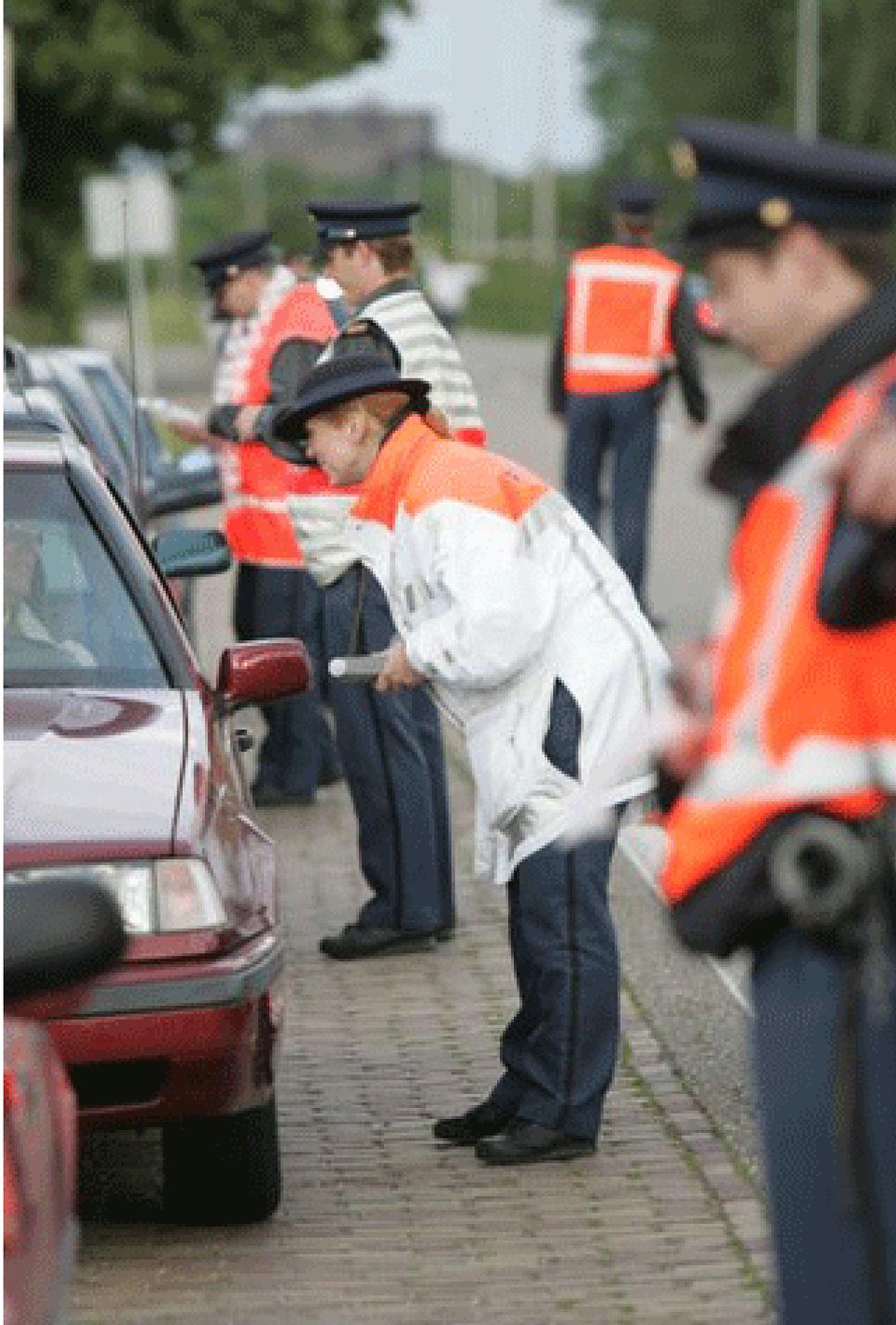














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Strategic role of research in IOSCO

Research should:

- Signal timely big risks
- Provide practical ideas for solutions
- Help targeting the strategic and current course of supervisory and policy agendas

And, as a result, helps making regulation based on evidence and timely.

Research provides arguments to the stakeholders why regulation is needed.

Strategic role of research in IOSCO

We have so far been able to produce the following:

- An innovative and practical methodology
- 2 Securities Market Risk Outlooks (2012 and 2013-14)
- Staff Working Papers on Cyber risk and Crowdfunding
- Statistical website
- Risk roundtable at each Board meeting
- Various reports (credit hedge funds, etc., internal Board)
- Risk Dashboard (internal for Board use)
- Helped the Committee on Emerging Risks functioning
- Help IOSCO's voice in FSB

IOSCO Risk Outlook Main Risks

1. The *return of leverage* in products and investments can *destabilize* markets when interest rates go up.
2. *Capital flow volatility* in EM takes place in better developed markets of today, but is *harming economic growth already*. IOSCO will take a pro-active role in developing market structures.
3. At the moment *we are unable to assess the impact of the changes and challenges of the collateral space* and we need much more disclosure.
4. Big changes in derivatives markets *move risks around but don't take them away*. Pooling them in CCPs make CCPs *too important to fail*.
5. *Cyber attacks* getting more sophisticated and become a threat to the functioning of critical infrastructure.

Strategic role of research in IOSCO

Results so far:

- We have been ahead of the curve with our identification and analysis of risks.
- Our products are getting increasingly good reception inside and outside IOSCO.
- IOSCO Policy streams are now more focused on the risks we identified and analyzed.
- The culture within IOSCO's Board and Policy Committees is now more open to risk and discussion about the important problems.
- AMCC is getting better connected to IOSCO research and policy.
- Members feel heard and have a centralized point to get information from.
- Growing influence within FSB

Strategic role of research in IOSCO

Will research help IOSCO to become:



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Current Research Projects

1. Securities Markets Risk Outlook 2014-2015 (October 2014)
2. Staff working papers:
 - Corporate bond markets (April 2014, first Volume)
 - Corporate governance
 - CCPs
 - And ideas for improving the craftsmanship of regulators using behavioral economics and criminology.
3. Data gathering:
 - IOSCO Africa Middle East Regional Committee
 - AMCC Investment Fund working group
4. Policy input and coordination

Q & A