



Research at IOSCO

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Research

Inputs:

- Data and trend analysis
- Market intelligence (interviews),
- Surveys to the market, academics and international organizations
- Roundtables to discuss risks with members of industry.

Some potential risk topics

Risk topics and developments:

- Asset bubbles in the low interest rate environment.
- Asset bubbles and concentration risk in Emerging markets.
- Collateral squeeze and collateral management.
- Risks around the derivatives market and Central Counterparties (CCPs).
- Small Medium enterprises (SMEs) and Infrastructure funding gaps.
- Cyber-crime.

Asset bubbles, low interest rate environment

Issues:

- The search for yield in the low interest rate environment.
- Investors driven towards riskier assets e.g. junk bonds.
- Yield no longer represents risk.
- Pension funds using credit hedge funds to purchase riskier assets – exposing themselves to leverage.

Questions:

- **Is there a bubble and where?**
- **Are investors aware of the risks?**
- **When the interest rate situation reverses?**
- **Systemic?**

Asset bubbles and concentration risk in Emerging Markets

Issues:

- Increased cross-border flows.
- Concentration risk in local markets.
- Market volatility.
- Funds into the mortgage market – real estate bubble?

Questions:

- **Lack of data, what is the nature of these risks?**

Collateral squeeze, collateral management

Issues:

- Regulatory requirements increase necessity for high quality collateral.
- Increased need but smaller pool – collateral squeeze.
- Use of repurchasing transactions, securities lending, rehypothecation and collateral transformation.
- Transparency, complexity, interconnectedness, leverage issues

Questions:

- What is the size of these practices?
- Shifting/hiding risk build-up? Systemic?

Derivatives Market and Central Counterparties (CCPs)

Issues:

- CCPs following similar risk management model – amplification?
- Smaller players compete through accepting lower quality collateral?

Small Medium Enterprises (SMEs) and Infrastructure funding gap

Issues:

- SMEs, also in emerging markets, struggling to gain access to financing.
- Banks retreat from long-term financing – infrastructure funding gap?

Questions:

- Meeting these funding needs?
- Role of securities markets in this space?
- Implications?

Cyber-crime

Issues:

- Financial system relies on technological infrastructure.
- Nature of cyber-crime is changing – more sophisticated.
- Methods, motives, purposes and consequences not clear.

Questions:

- **Systemic impact?**
- **How vulnerable are financial market infrastructures?**

Thank you for your time.

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