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**Panel 4: Challenges Related to the Implementation of the IOSCO
Principles and of the IOSCO MOU in Emerging Securities Markets**

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EXPERIENCE WITH THE ASSESSMENT OF THE IOSCO PRINCIPLES OF SECURITIES REGULATION

IMF/WB Financial Sector Assessment
Program

Clemente del Valle

IOSCO Annual Meeting, Hong Kong, 2006

SCOPE

- ❑ Joint IMF/WB study on the experience with IOSCO Assessments.
 - ❑ Conducted as part of the FSAP program
 - ❑ We reviewed 70+ assessments
 - ❑ Still is an internal working document
 - ❑ Distributed early for transparency purposes
 - ❑ And to benefit from IOSCO input

SCOPE

- Joint IMF/WB study on the experience with IOSCO Assessments.
 - Three objectives:
 - Levels of implementation of the Principles (follow up of 2002 Report)
 - Use of the Methodology
 - Improvements in the assessment for IMF/WB

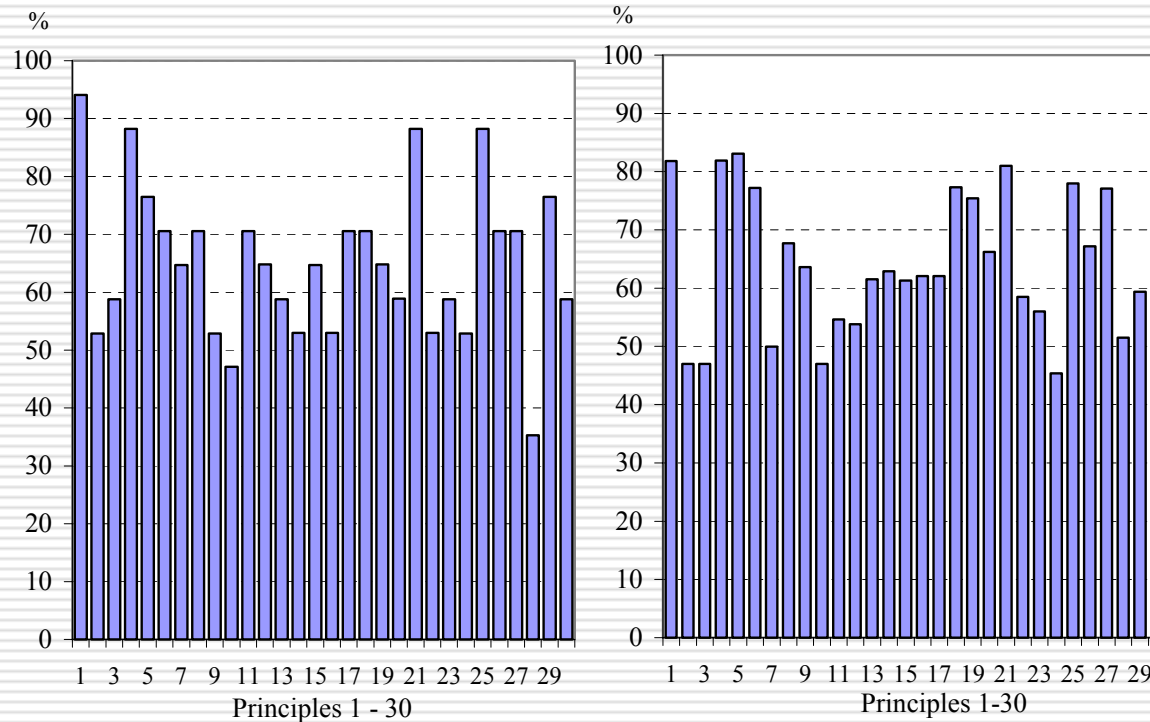
Financial Sector Assessment Program (FSAP)

- ❑ Purpose is to strengthen the financial sector in countries
- ❑ And address on time potential risks and systemic vulnerabilities
- ❑ System-wide approach analysis of financial sector issues
- ❑ Independent review of observance of international standards and codes
- ❑ Voluntary

LEVEL OF IMPLEMENTATION

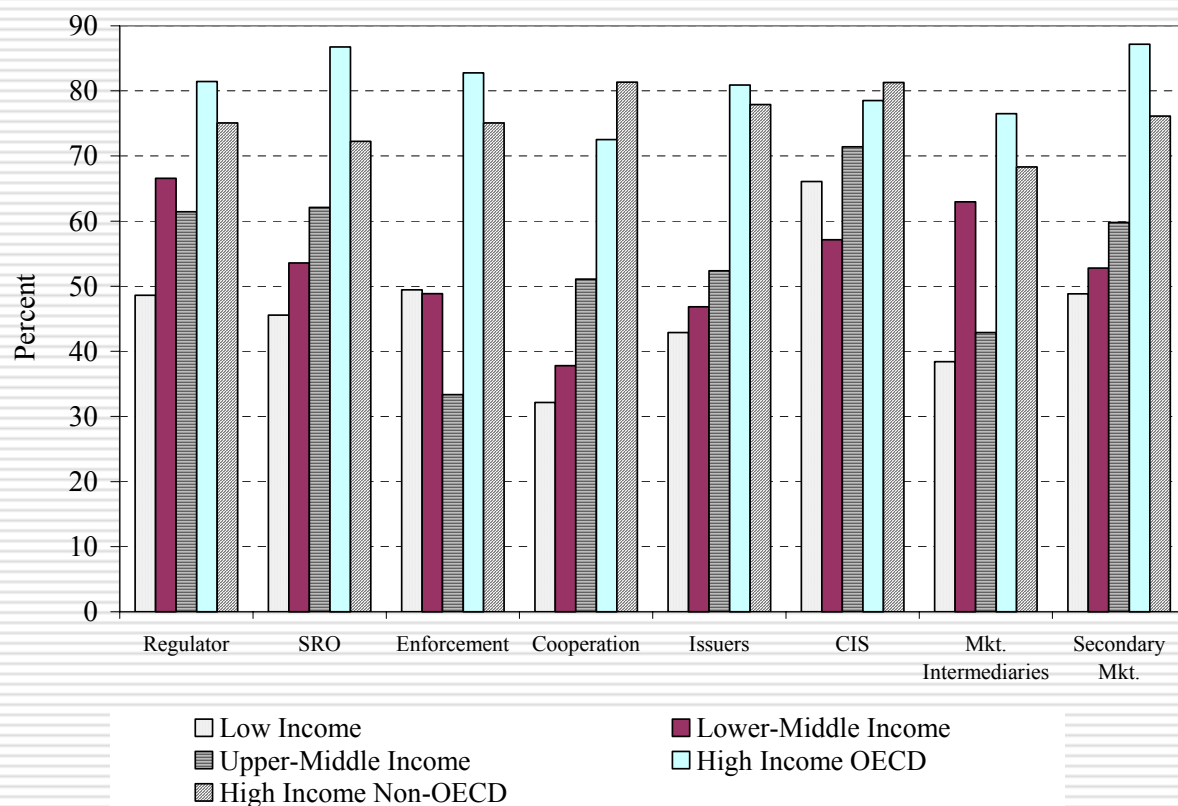
- Overall level of implementation was positive
- We found significant weaknesses and gaps that are common, regardless of region or income, relating mainly to:
 - Independence
 - Resources and powers
 - Enforcement
 - Accounting and auditing standards
 - Risk management

LEVELS OF IMPLEMENTATION BY PRINCIPLES (2002 vs. 2006)

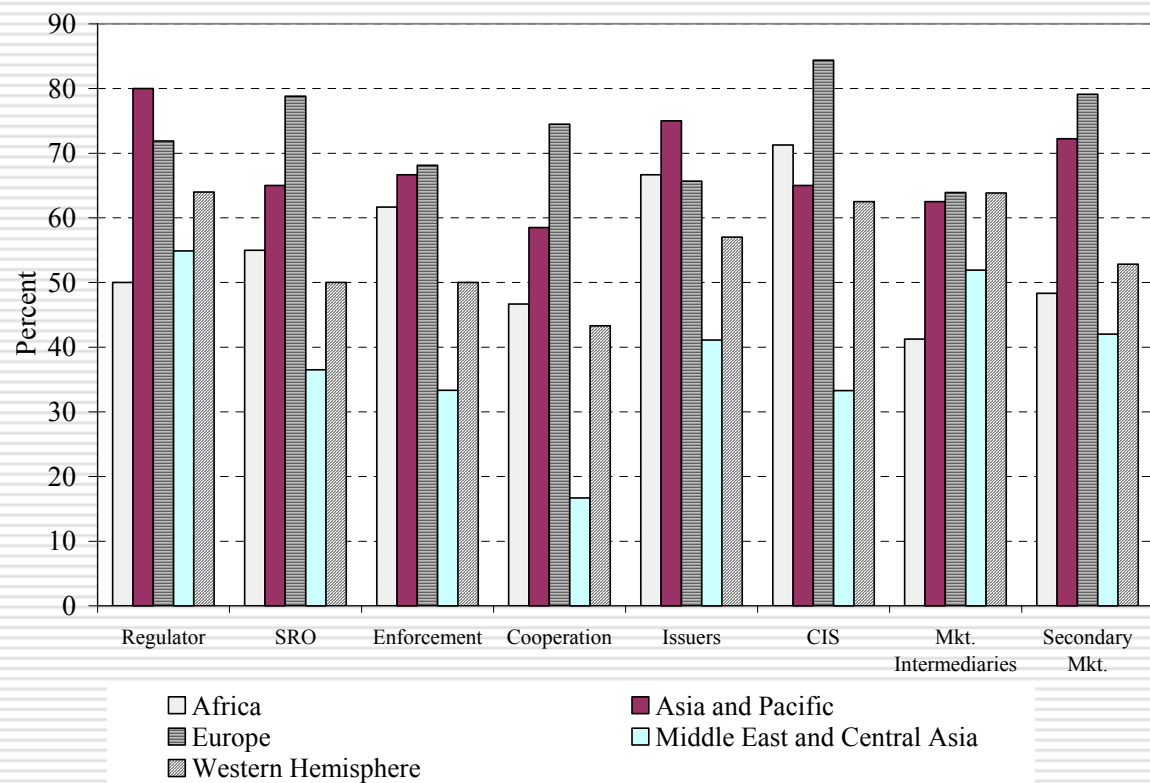


No substantial improvements between two evaluations

LEVELS OF IMPLEMENTATION BY INCOME (I + BI)



LEVELS OF IMPLEMENTATION BY REGION (I + BI)



LEVEL OF IMPLEMENTATION

- For each group of Principles, key issues are:
 - Regulator: lack of independence from the government, lack of powers (mainly licensing and enforcement) and resources
 - Enforcement: insufficient powers(on site inspection of third parties and issuers; supervision of auditors) and lack of effective implementation (sanctions and judiciary system)

LEVEL OF IMPLEMENTATION

- SRO: limited oversight, confusion on the concept, not clear division of labor with regulator
- Cooperation: higher levels of implementation than expected
- Issuers: lack of high quality standards for accounting and auditing, lack of appropriate mechanisms to oversight the accounting and auditing professions
- CIS: problems with asset valuation

LEVEL OF IMPLEMENTATION

- Market intermediaries: lack of a comprehensive framework of prudential regulation (both capital requirements and risk management), no contingency plan in case of insolvency
- Secondary markets: lack of appropriate mechanisms to oversee SROs (on site inspections as part of the regular program) and implementation of market abuse rules

USE OF THE METHODOLOGY

- The use of the Methodology has been beneficial
 - Provides a framework for the discussion with the authorities, and more generally for the analysis
 - Self assessments are more rigorous
 - Assessments are more detailed (though sometimes too lengthy)

USE OF THE METHODOLOGY

- ❑ However the Methodology has not solved many of the problems of quality and consistency identified in 2002.
- ❑ We see problems that cut across Principles
 - ❑ Inconsistency in the grades
 - ❑ Limited guidance in the assessment of “implementation” details

RECOMMENDATIONS

- ❑ On-Going review of the Methodology is necessary
- ❑ However, given time and resource limitations, quality of the assessor remains key to the final outcome.
 - Roster of assessors:
 - ❑ Selection process (limited group)
 - ❑ Input from IOSCO
 - ❑ Subject to “training sessions” before missions
 - ❑ Additional support from HQ (guidance notes).
 - ❑ Explore joint effort with IOSCO

RECOMMENDATIONS

- Market development work in emerging markets
 - In some cases, assessment of pre-conditions will render more value than of the IOSCO principles
 - WB is developing a development assessment tool (IOSCO Principles use as a framework)
- Vulnerability assessment
 - IMF should develop framework based on analysis of links between securities regulatory failure and financial sector vulnerabilities



THANKS