

12 April 2007

Final Communiqué of the 32nd Annual Conference of the International Organization of Securities Commissions

The world's securities and futures regulators as well as other members of the international financial community have successfully concluded their meeting in Mumbai, India which took place from 9-12 April 2007 on the occasion of the 32nd Annual Conference of the International Organization of Securities Commissions (IOSCO).

This year's conference which attracted more than 500 delegates from around the world and which included representatives from more than 100 countries was hosted by the Securities and Exchange Board of India.

The conference was officially opened by Mr. P. Chidambaram, The Hon. Finance Minister of India, whose presence along with other high level dignitaries indicated a strong level of support for the international collaborative efforts of the world's financial regulators. In his opening remarks to the Conference, Mr. Chidambaram said "the protection of the interests of the investors and the promotion and development of the securities market are inseparable twin objectives".

The Chairman of the Securities and Exchange Board of India, Mr. M. Damodaran, confirmed the importance of this year's event to India by stating that: "India has become a front runner among the emerging markets in implementing international financial standards. This IOSCO Conference while being yet another significant step in increasing cooperation among securities regulators, has helped to showcase the development and progress which has been achieved in the Indian securities market".

The Chairperson of the IOSCO Executive Committee, Ms Jane Diplock, revealed that the organization continues to make substantial progress in further promoting the cause of international cooperation among securities regulators in particular via the IOSCO *Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information* (IOSCO MOU).

Ms Diplock said that "the increased capability of regulators to cooperate is vital as capital markets become increasingly global. The effort which IOSCO is driving via the MOU as well as other initiatives is already delivering positive results and will continue to bring major benefits to securities markets worldwide including to investor confidence".

In his remarks to the Conference, the Chairman of the IOSCO Technical Committee, Mr. Michel Prada, noted the increased trend towards international convergence as evidenced in the organization's current activities: "The issues we are working on are slowly but inevitably converging from region to region and also globally, be they related to issuers, such as internal control and disclosure, to intermediaries such as trading and potential conflicts of interest, or related to retail investors such as those regarding the suitability of financial products".

At the conclusion of the Conference, IOSCO outlined the issues which represent the organization's main areas of focus at this time including:

IOSCO Memorandum of Understanding

The organization expressed satisfaction with the progress made as the number of signatories to the IOSCO MOU continues to steadily increase. Adopted in May 2002, the IOSCO MOU provides for improved enforcement related cooperation and the exchange of information among regulators. It represents one of the organization's most significant contributions yet to delivering on better regulatory cooperation and more effective cross-border enforcement.

There are currently 41 IOSCO members who have signed the MOU. New signatories who were welcomed during the Conference included:

- Bermuda Monetary Authority
- Financial Services Commission of the British Virgin Islands
- China Securities Regulatory Commission
- Commission de surveillance du secteur financier of Luxembourg
- Securities Commission of Malaysia

An additional 15 members have expressed their commitment in accordance with the Appendix B requirements to the IOSCO MOU. This means that they have expressed a formal commitment to seek the legal authority that would enable them to become signatories. The most recent additions are:

- Financial Supervisory Commission of Chinese Taipei
- Securities & Exchange Commission of Ghana
- Conseil du marche financier of Tunisia
- Superintendencia General de Valores of Costa Rica

IOSCO continues to monitor the progress of each member currently listed on Appendix B as they seek to make the transition to become full signatories.

It is noted that the Emerging Markets Committee has recently carried out a project to examine the obstacles that emerging markets face in adopting the MOU. The project concluded that some emerging markets may face obstacles in meeting the requirements but that training programs provide invaluable assistance.

Related to these developments is the *IOSCO MOU Assistance Program* which aims to help members throughout their application process. The Program which is coordinated by the IOSCO General Secretariat provides experienced specialists to work with members requiring technical assistance in order to help them conform to the necessary international regulatory standards.

To date a wide range of members have or are currently in the process of benefiting from this Program including those from the following jurisdictions: Costa Rica, Indonesia, Kenya, Uganda, Tanzania, Thailand, Mauritius, Vietnam, Brunei and Philippines. Third party funding for the Program, in particular from other international financial institutions including regional development banks such as the Asian Development Bank, is also being explored and has successfully been secured in several instances.

Implementation of IOSCO Objectives and Principles

The IOSCO *Objectives and Principles of Securities Regulation* (IOSCO Principles) were endorsed by the organization in 1998. Their objective is to encourage countries to improve the quality of their securities regulation. They represent the principal international benchmark on sound prudential principles and practices for the regulation of securities markets.

As the implementation of the IOSCO Principles is an important operational priority for the organization, a *Principles Assessment and Implementation Program* was launched in 2005. This Program essentially helps jurisdictions adopt and implement the IOSCO Principles. Since the launch of the Program numerous members have successfully benefited with assessment programs having been completed or in the process of being carried out in Peru, Romania, Honduras, Uruguay, Venezuela, Costa Rica and Tunisia.

At this time, IOSCO acknowledges that the level of demand from members for assisted assessments as part of the Program far exceeds available resources. In response, the organization is currently exploring options to ensure that more technical assistance is available to work with the members. IOSCO is also continuing to explore opportunities for third party funding from a number of international financial institutions and regional development banks for this purpose.

Initiative to Raise Standards of Cross-Border Cooperation

As reported on previous occasions, IOSCO has been engaged in a confidential dialogue with certain jurisdictions with which specific cooperation issues have been experienced. The objective of this work is to assist each of the identified jurisdictions to make genuine improvements in the level of cooperation they are able to offer their international counterparts in relation to information sharing.

At this Conference IOSCO welcomed the positive and constructive progress that has been made with a number of the securities regulators with which dialogue has been ongoing. Indeed, progress has been such with the Financial Services Commission of the British Virgin Islands, that it has now been welcomed into IOSCO as the newest ordinary member of the organization.

Given the progress made by jurisdictions initially contacted as part of this initiative, IOSCO has expanded the group of jurisdictions with which it is dealing with.

Dialogue with Financial Services Community

IOSCO is currently exploring ways to enhance existing channels of communication with market participants. This would include adopting a process for a more structured dialogue with the financial services community that would lead to improved consultation on IOSCO's various projects and initiatives. In this way it would assist IOSCO in the prioritization and addressing of issues.

This dialogue is also essential for establishing principles and standards that respond to the challenges of an ever-evolving market, to the risks that might arise and to better regulation. Moreover this dialogue is crucial for improving the implementation process of international principles in a manner that leads to greater convergence, more harmonized practices and paves the way for the removal of barriers to the development of cross-border activities. As part of this process, the IOSCO Technical Committee recently published its "Work Program" on the IOSCO website and held a meeting with industry stakeholders in Madrid during late March 2007.

Corporate Governance

Earlier this year, IOSCO published a report entitled "Board Independence of Listed Companies". This represented a useful review of the various definitions and roles of independent directors on the board of issuers as they applied in many capital markets.

In a separate project, IOSCO is examining corporate governance practices in relation to the protection of minority shareholders in controlled companies. This is in recognition of the fact that this is an issue of considerable significance to securities regulators in a number of markets. As with its earlier project, IOSCO is working in close collaboration with the Organization of Economic Cooperation & Development (OECD) on this issue.

The IOSCO Task Force on Corporate Governance is co-chaired by the Australian Securities & Investments Commission (ASIC) and the Comisión Nacional del Mercado de Valores (CNMV) of Spain.

Non-Audit Services

IOSCO has approved for publication a landmark report based on a survey on the regulation of non-audit services. The decision to conduct the survey reflected concerns that inconsistencies among different countries in the regulation of non-audit services might cause difficulties for investors, those responsible for the preparation of financial statements, auditors and regulators.

With the information collected IOSCO is now able to explore areas for possible convergence on non-audit services prohibitions and permissions. Indeed one of the reasons why IOSCO has chosen to publish this report is because it believes that such work can facilitate greater convergence which is an important objective in this field.

The IOSCO Task Force on Non-Audit Services is chaired by the Australian Securities & Investments Commission (ASIC).

Audit Services

IOSCO is identifying the range of possible considerations by a securities regulator in the event of an audit crisis or the demise or suspension of a major audit firm. In a separate project, IOSCO announces that it intends to host a “Roundtable on Audit Quality”. The Roundtable will focus on audit quality issues from the perspective of securities regulators. It will take place on 1 June 2007 in Paris, France.

The IOSCO Task Force on Audit Services is chaired by the Securities & Exchange Commission of the USA. The two initiatives mentioned here include a lead role being taken by the Financial Services Agency of Japan and the Autorité des marchés financiers of France respectively.

Credit Rating Agencies (CRAs)

Earlier this year, IOSCO published a Consultation Paper reviewing the progress made in the implementation of the IOSCO Credit Ratings Agency Code of Conduct which was released two years ago. The Paper noted that although there has been significant progress in the adoption and implementation of the IOSCO Code, there remained room for improvement. The period of consultation with the industry closes on 11 May 2007 following which IOSCO will consider submissions received and issue a final paper during the second half of 2007.

As discussed with the Financial Stability Forum, this Task Force will also undertake a new mandate on the role of CRAs in relation to the development of structured finance products. This work will be carried out in close cooperation with the Committee on the Global Financial System (CGFS).

The IOSCO Task Force on Credit Rating Agencies is chaired by the Securities & Exchange Commission of the USA.

Private Equity

IOSCO has established a new Task Force to explore the regulatory risks associated with private equity which has in recent years become an increasingly important component in capital markets. The project is considering the risks associated with private equity markets and assess whether the activity of private equity firms poses any concerns for securities regulators.

The IOSCO Task Force on Private Equity is chaired by the Financial Services Authority of the United Kingdom.

MULTINATIONAL DISCLOSURE AND ACCOUNTING

- International Financial Reporting Standards (IFRSs)

The need to progress toward internationally recognized financial reporting standards has been a central issue in the global financial services markets for some time. IOSCO has done much in this field and has consistently focused on convergence, implementation and also application, through the building of an IOSCO Database which is administered by the IOSCO General Secretariat that will facilitate the sharing by securities regulators of decisions relating to the enforcement of IFRSs. In January 2007, the IOSCO IFRS Database became fully operational and the indications are that the database will provide a useful reference source for regulators that will further aid coordination and convergence.

- International Debt Disclosure Principles

IOSCO has recently finalized and published its report entitled “International Disclosure Principles for Cross-Border Offerings and Listings of Debt Securities by Foreign Issuers”. The Principles should prove valuable at this time given the volume of public offerings and listings of debt securities in international capital markets as well as the level of participation by retail investors in those markets.

- Special Purpose Entities

IOSCO has also published its report on the use of “Special Purpose Entities” (SPEs). This work examines the current accounting as well as non-financial statement disclosure requirements and guidance that apply to the use of unconsolidated SPEs in different jurisdictions along with the level of audit assurance required for this information

REGULATION OF SECONDARY MARKETS

- Multi-jurisdictional Information Sharing for Market Oversight

IOSCO has published a Final Report on “Multi-jurisdictional Information Sharing for Market Oversight”. The report provides useful non-prescriptive guidance as to the information needed for market supervisory purposes. It examines the types of information that market authorities might want to share in order to facilitate their supervisory oversight of securities and related derivatives markets as well as parallel listing and trading. The report has been finalized following a period of consultation with the financial services community and other relevant parties.

- Transparency of Bond Markets

In 2004 IOSCO published a significant study entitled “Transparency of Corporate Bond Markets”. The report represented a valuable overview of the trading and transparency arrangements in different capital markets around the world. Given recent developments IOSCO reviewed this body of work and considered whether additional measures might be required in order to improve the transparency in bond market trading. On the whole however, IOSCO has concluded that the structures in corporate bond markets have not changed substantially and that additional recommendations are not necessary.

- Direct Access to Exchanges & Other Markets

In recent years the means of “access” to markets has evolved. This includes the advent of electronic trading. These developments raise questions about appropriate regulatory oversight over new avenues of access. Accordingly, IOSCO believes it is necessary to examine the different approaches taken by market authorities regarding direct access and to consider the regulatory issues that arise.

REGULATION OF MARKET INTERMEDIARIES

- Conflicts that arise in Securities Offerings

Earlier this year IOSCO released a Consultation Paper entitled “Market Intermediary Management of Conflicts that Arise in Securities Offerings”. The paper examines how market intermediaries manage information to deal with conflicts in securities offerings. The focus of the paper is on the processes at the market intermediary that should be in place to appropriately address conflicts of interest in the offerings context. Following the consultation process, IOSCO will review submissions received from the financial services community and will publish a final paper during the second half of 2007.

- Point of Sale Disclosure

Two of IOSCO’s specialist working groups recently commenced a project to examine disclosure regarding compensation, conflicts and product disclosure in connection with the promotion or sale of mutual funds or similar investment products to the retail public. The project will analyse whether regulators should consider requiring additional disclosures to investors at (or before) the point of sale relating to both of these arrangements and their cost as well as other key features associated with these products. Building upon this work, IOSCO will attempt to identify, if appropriate, recommendations or principles relating to such disclosure. It is expected that a preliminary report analysing the relevant issues will be completed for public consultation during 2008.

ENFORCEMENT AND EXCHANGE OF INFORMATION

- Preserving and Repatriation of Property

In June 2006, IOSCO adopted a resolution that encourages members to examine the legal framework under which they operate with respect to the freezing of assets derived from cross-border securities violations. The intention is that those who break the laws of the securities sector would be unable to benefit from any gains made as a result of their illegal actions. IOSCO is developing guidance to assist regulators in addressing this issue in their respective jurisdictions.

- Boiler Room Activity

IOSCO continues to monitor “boiler room” activity around the world. This follows the establishment of an ad hoc group on the issue. The intention is to develop guidance for regulators in combating boiler room scams.

INVESTMENT MANAGEMENT

- *Governance for Collective Investment Schemes (CIS)*

Earlier this year IOSCO published a report entitled “Principles of governance for Collective Investment Schemes”. The report examines in detail the principle of “independent oversight” in different jurisdictions around the world. Specifically, the report covers independence criteria, empowerment conditions and functions to be performed by independent oversight entities. The report has been finalized following a period of consultation in which the majority of submissions received expressed strong support for the concept of independent oversight as well as the need to maintain flexibility of regulatory requirements according to different CIS models.

- *Soft Commissions*

Recently, IOSCO published a Consultation Paper analyzing soft commission arrangements across different jurisdictions in the major capital markets. Although not all jurisdictions regulate soft commission arrangements, there is a strong perception of the risks associated with such arrangements. The amount of money involved in soft commission arrangements can be substantial and the potential for conflicts of interest for CIS operators is readily evident. IOSCO anticipates that the Final Report on this issue will be published during the second half of 2007.

- *Hedge Funds*

IOSCO has now published a Consultation Paper which examines the issues related to hedge funds valuation and administration. This follows agreement among members that a set of principles would seek to ensure that the values of a hedge fund’s financial instruments are appropriately valued and, in particular, is not distorted to the disadvantage of fund investors. It is anticipated that following a period of consultation with the financial services community a Final Report on these issues will be published in due course.

In a separate project IOSCO has recently decided to initiate a survey on funds of hedge funds. This is in recognition of the fact that funds of hedge funds have become the most common vehicle in some markets for the industry to promote retail investment into alternative assets on a domestic as well as on a cross-border basis. This project will help to clarify potential issues of concern and to consider developing elements of international regulatory standards based on best market practices.

IOSCO – GENERAL BUSINESS

- Secretary General

IOSCO Secretary General, Philippe Richard, announced that he will leave the position once his current term expires in October 2007. Mr. Richard said that it had been “an honour and a privilege to have held the position but that following six years and two mandates, it is time to move onto new challenges”.

The Executive Committee thanked Mr. Richard for his successful tenure over the past six years. The Chair of the Executive Committee, Ms. Jane Diplock, said: “During this time, IOSCO has undergone a remarkable transformation which would not have been possible without Mr. Richard’s tremendous contribution, professionalism and dedication”.

The Executive Committee will soon recruit a new Secretary General and the position will be advertised on the IOSCO website.

- Admission of New Members

IOSCO is pleased to welcome the following as new members to the organization:

Financial Services Commission of the British Virgin Islands (Ordinary Member)

Korea Deposit Insurance Corporation (Associate Member)

Autoregulador del Mercado de Valores of Colombia (Affiliate Member)

Abu Dhabi Securities Market (Affiliate Member)

Dubai Financial Market of the United Arab Emirates (Affiliate Member)

Bombay Stock Exchange Limited (Affiliate Member)

Muscat Stock Exchange of Oman (Affiliate Member)

Tel Aviv Stock Exchange (Affiliate Member)

Jasdaq Securities Exchange of Japan (Affiliate Member)

- Future Conferences

IOSCO will hold its next Annual Conference in Paris, France from 26-29 May 2008.

Thereafter, the Annual Conference for 2009 will take place in Tel Aviv, Israel. During meetings this week, IOSCO voted for Montreal, Canada, to be the host for the Annual Conference in 2010.

The IOSCO Technical Committee is organizing a high-level conference to be held in Tokyo, Japan, from 8-9 November 2007. Invitees to the conference will include senior executives and market professionals from all sectors of the global financial services markets as well as representatives from other international financial organisations. The Tokyo Conference will be organized around a series of high-profile panel discussions on topical and emerging issues from the world of international financial services.

In 4-6 December 2007, the IOSCO Emerging Markets Committee will meet in Dubai where members will review progress on the implementation of the IOSCO Principles and the challenges related to securities regulation in emerging economies.

Further Information

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