IOSCO Initiatives and the Challenges Going Forward

Remarks by Tajinder Singh, Deputy Secretary General of the International Organization of Securities Commissions, at the Annual General Meeting and Conference of the International Council of Securities Associations, Stockholm.23 May 2016 Stockholm.

Let me begin by thanking ICSA, especially Ian and Peter, for this kind invitation to IOSCO. It is a privilege to be with you again this year. In fact, Ian and Peter were at the IOSCO headquarters in Madrid a few weeks ago and it was great to talk with them about the cooperation with ICSA.

Allow me to mention a few words about IOSCO, even though most of you are probably aware of what we do. IOSCO is the standard setting body for securities regulation with about 200 members, of whom more than 125 are regulators. Together, IOSCO's members regulate more than 95% of the world's capital markets. But IOSCO is not just about setting standards; it is also about helping members, majority of whom are emerging markets, in capacity building; it is also about monitoring implementation; and it is also about looking at emerging risks.

IOSCO's objectives are investor protection, fair, efficient and transparent markets and reduction of systemic risk. Not surprisingly, these are quite similar to the mandates of most securities regulators. Even though three objectives might look fairly general, I think it is still an interesting way to look at what IOSCO is doing, and where the attention of the world's securities regulators is today.

No doubt a large part of our work in the last 8 years has been related to the financial crisis, and therefore can be said to fall in the **systemic risk** bucket. Our work related to the Global Financial Crisis includes developing standards on OTC derivatives transparency and risk mitigation, including work on trading platforms, central clearing, margin requirements (which we did together with the BCBS), trade reporting (which we did together with CPMI). Other work relating to the last GFC includes securitization, money market funds, and CRAs.

But that was not our only response to the crisis in terms of sharpening our systemic risk mandate. We made systemic risk a core IOSCO principle and also created a Risk and Research function in IOSCO, with a Research department and a new Committee on Emerging Risks. This has resulted in our looking at new risks which could be systemic, as well as monitoring the evolution of global policy and regulation which can give rise to new vulnerable spots. So we have analysed, for instance, whether cyber risk can become systemic with our research paper on this in 2013. We have continued our work on this issue with a much more detailed report that we published last month on cyber issues in all the different segments of securities markets, and a specific report on cyber resilience in FMIs. This is an area where work will be ongoing , and we will seek to encourage implementation and sharing of information with sensitivity to the peculiar nature of this risk.

The global reform of moving OTC trades into central clearing has meant that we need to work towards ensuring resilience of Financial Markets Infrastructures, particularly CCPs, and, together with the CPMI, we have produced new Principles for FMIs and are now working at producing even more specific guidance on CCP resilience and recovery. The current low yield interest rate environment has also resulted in a large growth of assets under management, particularly in bonds, and has given rise to concerns about possible vulnerabilities in the asset management sector and in liquidity of bond markets. We are therefore very actively analysing these and will look at whether further standards are needed in these areas. The big caveat here is that work and fresh regulation in this area should be evidence based and data driven, and not just on the basis of a feeling of generalized discomfort. But herein lies the challenge as well, because data is not easy to come by in many of these areas, and we have been taking stock of what data is available and where further data might be needed, especially in asset management where we will come out with a statement soon on what should be the priorities of authorities for data gathering. We launched the hedge funds survey to gather data for systemic risk purposes and will be launching the next iteration of this exercise. On corporate bond market liquidity, we are examining the data we have closely, and the discussion has to be informed by the changing role of market participants, evolving market structure and monetary policy.

But all this focus on systemic risk does not mean that we have stopped work on our other two objectives. As critical as systemic risk is, we think that we should retain a sense of proportion and balance. Therefore, in the review of our strategic direction that was completed last year, we decided that our Risk and Research Function should rebalance its focus from systemic risk exclusively to the **investor protection and market integrity and efficiency objectives**. These objectives are of course not new to IOSCO, and we have continued to work on financial benchmarks, audit quality, disclosure and suitability, order routing incentives, retail OTC leveraged products, automated advice (or Robo Advice), Review of Fees and Expenses of CIS, vulnerability of senior retail investors, among others. We are examining the issue of market conduct especially in wholesale markets and will come out with a toolkit for regulators. And investor protection is aided by strong and credible deterrence through the use of sanctions in enforcement, which was reinforced by our report on Credible Deterrence last year. The IOSCO MMOU continues to be the pre-eminent global standard for sharing of enforcement related information, and we have 109 signatories to this tremendously successful instrument. In a landmark development, we decided at our Annual conference two weeks ago to establish an Enhanced MMOU to take into account the need for information in the digital age, related to ISPs and telephone records, among others.

When looking at the digital future, we are not only conscious of emerging risks but also opportunities in capital markets. **Fintech** is one such area, and we are looking at the effects of digital disruption. This includes our work on crowdfunding, robo advice and work on blockchains or DLT together with other SSBs.

And thinking about the future, there is a much higher awareness today about the role of **market based financing** given the constraints on banks and governments. The crucial lubricant for markets to function is of course Trust, and the 3 IOSCO objectives of investor protection, market integrity and reduction of systemic risk all go towards (re-)building trust. In addition, we have worked on areas such as securitization to see how the so-called "shadow banking" activity can be transformed into resilient market based financing. BCBS and IOSCO have studied what issues might be hindering in the development of sustainable securitization markets for the development of market based finance and have identified criteria for simple, transparent and comparable securitizations- or STC- securitizations. Another area of our work of market based financing has been our report to the G20 of case studies on the use of Market Based Finance for long term and SME financing. We will be starting work on the role of capital markets in infrastructure financing, especially in emerging markets. As your agenda shows, these IOSCO initiatives also find resonance in the work of the EU and other authorities.

But even though markets are global, legislative and regulatory mandates are national. **Cross-border** issues are clearly important and as you are aware, we published the report of our Task Force on Cross Border issues last year. We appreciate very much the importance that ICSA attaches to this issue. The cross-border regulatory toolkit – in terms of the approaches of National Treatment, Recognition (both Unilateral and Mutual Recognition), and Passporting- is an important aid to regulators. In addition, we are taking forward the other recommendations of the report in terms of factoring in cross border issues and unintended consequences in our future standards and setting up IOSCO information repositories on cross-border decisions and supervisory MOUs.

Of course, given the cross-border issue, we might wish that there was an international treaty to have a single global rule book which was enforceable, but the reality is that that will not happen anytime soon. The role of SSBs like IOSCO (and BCBS) is therefore crucial in terms of developing international principles and standards with our members working cooperatively to set high standards and implementing them with robust monitoring through peer reviews, and helping our members build regulatory capacity.

To conclude, market based financing is going to be important going forward, and building trust and confidence through promoting the objectives of financial stability, investor protection and market integrity will be crucial. IOSCO has a key role to play in these exciting times by setting standards to meet these objectives and fostering closer cooperation and convergence among regulators.

Thank you for your attention.