Activities of IOSCO's Policy Committees in the Year

May 2013 marked the first anniversary of the creation of the IOSCO Board. Under the aegis of the new Board, IOSCO made important contributions to the global regulatory reform agenda. Much of IOSCO´s work on securities markets regulation was conducted in response to mandates from the G20 leaders and the Financial Stability Board. Other policy mandates were undertaken at the initiative of its members. In all its work, IOSCO´s objective is to protect investors, maintain fair, efficient and transparent markets, and to identify and mitigate systemic risks.

The IOSCO Board was constituted at the 2012 Annual Meeting in Beijing. It subsumes the activities of the IOSCO Technical Committee, the Executive Committee and the Emerging Markets Committee Advisory Board. By commissioning a single integrated body to take on the governance, standard-setting and development functions of the organization, IOSCO has sought to become more effective at achieving its objectives and conveying its messages. A streamlined governance structure also makes the organization more efficient and inclusive.

The IOSCO Board reviews the regulatory issues facing international securities markets and coordinates practical responses to these concerns. The work is carried out by seven IOSCO committees, each one working in one of the following policy areas, under the guidance of the Board:

- **Issuer accounting, auditing and disclosure;**
- **Regulation of Secondary Markets;**
- **Regulation of Market Intermediaries:**
- **Enforcement and Exchange of Information;**
- **Investment Management; and**
- **Credit Rating Agencies**
- **Commodities Derivatives Markets**

The Board also oversees the activities of the Emerging Markets Committee. The EMC seeks to develop and improve the efficiency of emerging securities markets through the introduction of minimum standards, the provision of training programs for members' regulatory staff and facilitating the exchange of information, technology and expertise. In May 2012, IOSCO merged the policy and standard-setting work of the EMC Working Groups and the former Technical Committee Standing Committees, to create the seven policy committees. They share the common IOSCO objectives.

The move enhanced the effectiveness of the committees and gave emerging market members a bigger say in IOSCO´s policy work, underscoring the growing importance of the emerging market membership within the organization.

In addition to the policy committees, several task forces were entrusted in this period with examining relevant developments in the financial markets. They included:

- Board Level Task Force on Financial Benchmarks
- Task Force on OTC Derivatives Regulation
- Task Force on Unregulated Markets and Products (TFUMP)
- Task Force on Unregulated Financial Entities (TFUFE)

POLICY COMMITTEES WORK PROGRAM

Committee on Issuer Accounting, Audit and Disclosure – Committee 1

Chair: Julie A. Erhardt (US SEC)

Committee 1 is devoted to improving the development of accounting and auditing standards, and otherwise enhancing the quality and transparency of the information that investors receive from listed companies, including financial institutions. IOSCO considers the accuracy, integrity and comparability of issuer disclosure to be essential for maintaining investor confidence and facilitating a stable international financial system.

Accounting

Committee 1 monitors and supports the work of the international accounting standard-setting bodies. This involves monitoring the projects undertaken by the International Financial Reporting Standards Foundation (IFRS Foundation), observing the IFRS Interpretations Committee (IFRIC), and participating in the IFRS Advisory Council and other IFRS Advisory Groups. The IFRS Foundation is the legal entity under which the International Accounting Standards Board (IASB) operates.

Committee 1 contributes to the standard-setting work of the IASB through its involvement in the IASB work streams and its comment letters on the IASB's proposals. Its aim is to provide the IASB with input that reflects the perspective of securities regulators. IOSCO also is a member of the Monitoring Board (MB) that oversees the IFRS Foundation. After publication in February 2012 of its report on the review of the IFRS Foundation´s governance, the MB began to develop an evaluation process and measures to assess current members and expand the MB membership. This process is expected to be completed in 2013.

Committee 1 also organizes interactions about IFRS implementation matters, both among the IOSCO members and between the IOSCO members and the IASB staff. These arrangements foster the sharing of information about the nature and possible resolutions of IFRS matters encountered in practice. One such matter that has received particular attention during the past year is the issuer practice of reporting *non-GAAP* measures of performance.

Auditing

IOSCO believes there is an important role to be played by a set of international auditing standards in contributing to global financial reporting and supporting investor confidence and decision making. To that end, Committee 1 monitors the activities of two of the International Federation of Accountant´s standard-setting bodies: the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA). It also provides input via the IOSCO members who participate in the respective Consultative Advisory Groups (CAGs) of the two standard-setting boards.

In response to several high-profile financial reporting problems at the turn of the century, IOSCO became a founding member of the Monitoring Group (MG) of regulatory organizations that created the Public Interest Oversight Board (PIOB). The MG and the PIOB were charged with overseeing the implementation of the 2003 reform of the standard-setting and compliance activities of the International Federation of Accountants.

In March 2012, the PIOB conducted a three-month consultation on the *PIOB Work Program 2012 and Beyond.* The PIOB paper was issued in conjunction with the MG consultation on *The Governance of the MG, the PIOB, the Standard Setting Boards, and Compliance Advisory Panel Operating under the Auspices of IFAC*. The responses to the MG consultation paper highlighted the need to explain better to stakeholders the essential objectives, roles and responsibilities of the standard setters, and how the current governance structure seeks to support them.

In March 2012, the Financial Stability Board called on IOSCO to report on certain matters related to external audits of issuer financial statements. Committee 1 has worked on the following two mandates:

> *Global Standard-Setting Work on Auditor Communications:* This mandate deals with the information that auditors include in their reports on financial statements.

> *Auditor Reporting to Prudential Regulators*: This focuses on the information on financial institutions that external auditors provide to prudential supervisors and regulators.

Experiences with IOSCO Audit Firm Contingency Planning Paper: This mandate deals with matters associated with a possible disruption in the delivery of audit services to public companies.

Further to its work aimed at improving audit quality, Committee 1 has advanced with work arising from the previous IOSCO consultation paper on the transparency of the reports that audit firms provide about themselves to investors.

Non-Financial Statement Disclosure

In November 2012, Committee 1 issued the final *Principles for Ongoing Disclosure for Asset Backed Securities*, which provide guidance to securities regulators who are developing or reviewing their regulatory regimes for ongoing disclosure for asset-backed securities. The objective of these principles is to enhance investor protection by clarifying the issues that regulators should consider when working on these disclosure regimes.

Committee on Regulation of Secondary Markets - C2

Chair: Susanne Bergsträsser (Germany, BaFin)

Committee 2 is concerned with recent developments in the structure of global capital markets and financial market infrastructure, and how they are affected by, and contributed to, the financial crisis.

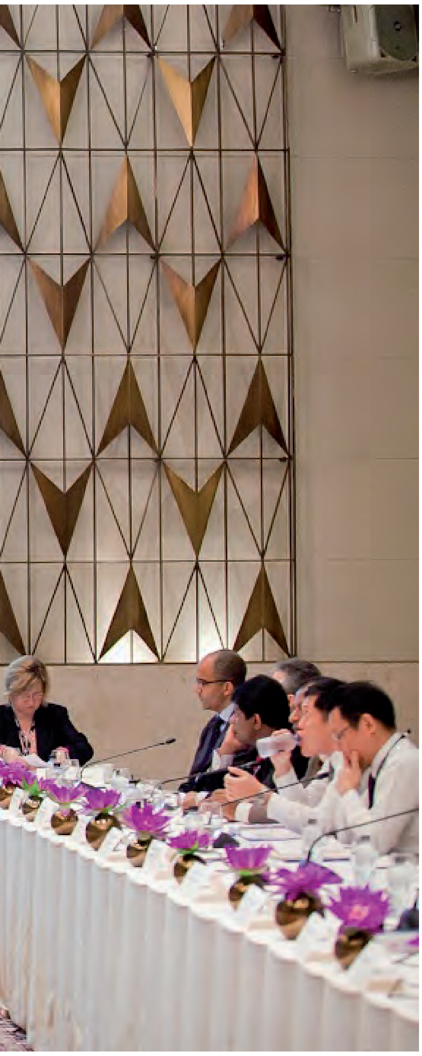
During the period of this annual report, Committee 2 responded to a 2010 request from the G20 for IOSCO to "develop recommendations to promote markets´ integrity and efficiency to mitigate the risks posed to the financial system by the latest technological developments."

To meet that request, Committee 2 worked on the following two mandates:

The Development of Tools Needed to Address the Technological Challenges to Effective Market Surveillance

In April 2013, Committee 2 issued the final report on *Technological Challenges to Effective Market Surveillance: Issues and Regulatory Tools,* which provides an overview of current market surveillance regimes and identifies the main challenges that technological developments pose to these regimes. The report makes final recommendations to help market authorities develop the regulatory tools for addressing these challenges, particularly with respect to:

> improving surveillance capabilities on a cross-market and cross-asset basis; and
> enhancing the usefulness of data collected for surveillance purposes.



This report recommends new regulatory tools for market authorities such as audit trail or surveillance data that permit the reconstruction of trades and order books; a single reporting point for transactions within a jurisdiction; and unique entity identifiers.

Issues Raised by Changes in Market Structure

In March 2013, Committee 2 published its consultation paper on *Regulatory Issues Raised by Changes in Market Structure*, which identifies possible outstanding issues and risks posed by existing or developing market structures. It also proposes recommendations to address these potential risks.

To prepare the report, Committee 2 conducted an analysis of how current market structures have evolved in members´ jurisdictions. The aim was to gather evidence and views for developing recommendations that promote market liquidity and efficiency, price transparency, and investors' execution quality in a fragmented environment. The report proposes possible policy options and regulatory tools to cope with the potential drawbacks arising from market fragmentation.

The report concludes that securities regulators bear the responsibility for striking an appropriate balance between a market structure that promotes competition among markets, and one that minimizes the potentially adverse effects of fragmentation on market integrity and efficiency, price formation, and best execution of investor orders.

Other mandates: Trading Fee Models and their Impact on Trading Behavior.

During the year, Committee 2 gathered information from trading venues and regulators on the different frameworks for regulating trading fees, as well as the different fee models and fees charged by trading venues, and their potential impact on trading behavior. The committee is evaluating its findings.

Currently, Committee 2 is considering further mandates in the area of electronic trading, such as the recent events during which *technical* problems caused trading interruptions and major losses (e.g., the *Knight Capital* case).

Committee on Regulation of Market Intermediaries – C3

Chair: Stephen Po (Hong Kong SFC)

The recent financial crisis raised serious concerns that the growing complexity of financial products made the associated investment risks less apparent to customers. In particular, the collapse of Lehman Brothers in September 2008 highlighted the extent to which intermediaries failed to assess the suitability of structured investment products for retail and non-retail customers.

To help address this problem, Committee 3 in January 2013 issued a final report on *Suitability Requirements with respect to the Distribution of Complex Financial Products*, which sets out principles regarding the distribution by intermediaries of complex financial products to retail and non-retail customers.

The report forms part of IOSCO's ongoing drive to promote customer protection. It introduces nine principles covering areas related to the distribution of complex financial products by intermediaries, including the classification of customers, disclosure requirements, and compliance function and internal suitability policies and procedures.

Systemically Important Non-Bank Financial Entities

The G20 declaration after the Cannes summit in November 2011 asked the FSB, in consultation with IOSCO, to prepare methodologies to identify non-bank global systemically important financial institutions (SIFI) in the securities sector. During the year covered by this annual report, IOSCO had two work streams responding to the G20 mandate: Committee 3 was charged with listing a set of indicators to identify non-bank systemically important market intermediaries in the securities sector; Committee 5 on Investment Management worked in conjunction with the Task Force on Unregulated Financial Entities (TFUE) on general guidelines for identifying systemically important Investment funds, including hedge funds.

The IOSCO working groups prepared a draft joint report that reflects the need for a consistent approach for all G-SIFIs similar to that adopted in the banking and insurance sectors. It broadly considers the same impact factors (size, interconnectedness, complexity, substitutability and global activities) but tailors the indicators to the specificities of each sector.

FSB Key Attributes of Effective Resolution Regimes for Financial Institutions

In February 2013, the FSB asked IOSCO and other standard-setting bodies to provide feedback on its draft assessment methodology for *the FSB Key Attributes of Effective Resolution Regimes for Financial Institutions*. In response, Committee 3 solicited comments from its members on the draft assessment methodology from a market intermediary perspective. These comments have informed the review of the methodology that the FSB Resolution Steering Group is conducting.

Reducing reliance on CRAs

Committee 3 has been contributing to the FSB roadmap on reducing reliance on the ratings of credit rating agencies since 2010. It is entrusted with determining how and where market intermediaries can reduce reliance on CRA ratings.

Protection of Client Assets

The demise of Lehman Brothers also highlighted the importance of client asset protection regimes. Its collapse spurred regulators to improve the supervision of intermediaries holding client assets. In particular they examined how to transfer or return client assets in default, resolution or insolvency scenarios, on a cross-border basis.

In response to a request from the FSB at its plenary meeting in May 2012, Committee 3 published a consultation report*, Recommendations Regarding the Protection of Client Assets.* The 2013 report provides guidance to regulators on how to enhance their supervision of intermediaries holding client assets by clarifying the roles of the intermediary and the regulator in protecting those assets.

At the time of publication of this annual report, Committee 3 was aiming to submit its final report and a feedback statement on the comments received, at the IOSCO Board meeting in June 2013.

Other mandates

Finally, Committee 3 is considering two new mandates relating to social media and to the automation of financial advice.

Committee on Enforcement and Exchange of Information – C4

Chair: Georgina Philippou (UK FCA)

The IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (MMoU) Screening Group

Co-Chairs: Georgina Philippou (UK FCA) and Jean-François Fortin (Québec, AMF)

IOSCO operates on the premise that enforcement cooperation among regulators is essential to achieve effective global regulation and to strengthen securities markets around the globe. To that end, Committee 4 and the Screening Group seek to implement global enforcement cooperation under the IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information, the international standard for cooperation and information exchange.

Securities regulators around the world use the MMoU to combat the cross-border fraud and misconduct that can weaken global markets and undermine investor confidence. The MMoU sets out specific requirements for the exchange of information, ensuring that no domestic banking secrecy, blocking laws or regulations prevent the exchange of enforcement-related information among securities regulators

Signatories to the IOSCO MMoU

Committee 4 works with the MMoU Screening Group and the General Secretariat to help IOSCO member jurisdictions meet the requirements for becoming signatories to the MMoU. In 2010, IOSCO asked all its members to become signatories by 1 January 2013.

Of the 124 eligible members, 95 are signatories to the MMoU, representing approximately 95% of global securities markets. Of the 29 members who are not yet signatories, 24 are listed on Appendix B— the list of members who have formally expressed their commitment to seek the legislative and administrative changes necessary for achieving MMoU compliance.

In February 2013, IOSCO published a list of the members who had yet to sign the MMoU.

Later it agreed to take tougher measures to encourage compliance with the MMoU by non-signatories.

At the same time, IOSCO reiterated its commitment to provide technical assistance and political support to those non-signatories that require it in order to sign the MMoU.

The increase in the number of signatories over the last decade has led to a sharp increase in cross-border cooperation, enabling regulators to investigate a growing number of insider traders, fraudsters and other offenders. In 2006, a total of 520 requests for assistance were made pursuant to the MMoU; the annual figure increased to 1,600 in 2010, 2.090 in 2011 and 2.606 in 2012.

In 2012, a study by a Committee 4 working group concluded the MMoU was relevant to members investigating misconduct related to financial market benchmarks, such as Libor. Consequently, Committee 4 is contributing to the work of the Board-level Task Force created in September 2012 to identify relevant benchmark-related policy issues and develop global policy guidance and principles of particular relevance to market regulators.

New Mandate of Deterrence Regimes

Recent scandals at some of the world's largest financial institutions have had a profound impact on the world's capital markets. Public confidence in capital markets and the financial system has been seriously eroded. Regulators across the globe have brought concerted action to eradicate and punish flagrant misconduct. However the ability of some regulators to detect and punish such misconduct has not been as robust as others.

In light of the public demand for tougher sanctions to deter this type of market misconduct, the IOSCO Board approved in April 2013 a mandate for Committee 4 to conduct a review of the core elements of a credible deterrence framework for securities regulation, including strategies and good practices. Taking into account the wide divergence in international sanctions regimes, the mandate envisions, where appropriate, the development of a set of founding principles upon which credible deterrence frameworks could be built. Committee 4 is expected to publish the findings of its review in March 2014.

Legislation Forum

In November 2012, Committee 4 launched a Legislation Forum for members. The primary objective is to gather and disseminate examples of legislation, policies and practices of jurisdictions from across the globe that might be useful to other regulators seeking to enhance their enforcement powers. It also is aimed at informing IOSCO members of interesting and novel legislative developments in the area of enforcement.

Committee 4 published in April 2013 an addendum that updates a 2000 IOSCO report

on *Investigating and Prosecuting Market Manipulation*. The 2000 report described the basic concepts underlying market manipulation and the tools used by different jurisdictions to detect, investigate and prosecute market manipulation. The addendum reflects the developments in technology over the past decade that have transformed market structures and influenced the way market manipulation occurs. It also reviews the new methods used by regulators to detect and investigate market manipulation.

Committee on Investment Management - C5

Chair: Natasha Cazenave (France, AMF)

G20 and FSB mandates

Money Market funds

In October 2012, Committee 5 published a final report on *Policy Recommendations for Money Market Funds*. The report formed part of an effort by the G20 and the Financial Stability Board (FSB) to strengthen the oversight and regulation of the shadow banking system. The FSB asked IOSCO to consider potential regulatory reforms of money market funds (MMF), after the September 2008 run on some funds alerted regulators to the systemic relevance of MMFs. Although money market funds are a source of credit and liquidity, their performance in 2008 highlighted their potential to spread or even amplify a crisis.

The IOSCO report proposes recommendations on common standards for the regulation and management of money market funds across jurisdictions. These are formulated around key principles for valuation, liquidity management, use of ratings, disclosure to investors, and repos.

G- SIFIs identification

In collaboration with Committee 3 on Regulation of Market Intermediaries and the Task Force on Unregulated Financial Entities (TFUE), Committee 5 is working on the preparation of a methodology to identify systemically important non-bank financial entities in the securities sector (see Committee 3 above). Committee 5 is working with TFUE to develop a single methodology applicable to all investment funds, including hedge funds; Committee 3 is developing in conjunction to this work the section of the methodology aimed at identifying systemically important market intermediaries.

Reducing reliance on CRA ratings

In a report published October 2010, the FSB recommended that investment managers and institutional investors should not rely on CRA ratings for assessing the creditworthiness of assets. Instead, it said, they should conduct their own due diligence. Two years later, the FSB published a *roadmap* outlining the steps for reducing the reliance on CRAs and strengthening the risk assessment capabilities at financial firms.

As part of this FSB initiative, Committee 5 members conducted two reviews of national CRA regulations in their jurisdictions. The second review in October 2012 indicated that reliance on CRAs had diminished since the first review in March 2011.

Exchange Traded Funds (ETF)

Exchange Traded Funds have attracted significant investment in recent years, drawing the attention of regulators who are concerned about the potential impact of ETFs on investors and the marketplace. The consultation period for the *Principles for the Regulation* *of Exchange Traded Funds* ended in June 2012. The final principles, expected to be published in June 2013, address such issues as product labeling, appropriate disclosure and commercial practices for better investor protection, to address regulator's concerns.

During the year Committee 5 continued with its work on Collective Investment Schemes (CIS).

In March 2013, it published the *Final Report on Principles of Liquidity Risk Management for Collective Investment Schemes*. These principles provide high-level guidance for the valuation of CIS and reflect market developments since 1999, such as the increase in the use of complex and hard to value assets. The objective is to ensure that CIS will be in a position to meet redemption obligations and other liabilities.

On 3 May 2013, Committee 5 issued the final *Principles for the Valuation of Collective Investment Schemes,* which identifies comprehensive policies and procedures for the valuation of CIS. It recommends general principles for the development and implementation of such policies, as a means to ensure that CIS asset valuations are not distorted.

Looking Forward

At its February 2013 meeting in Madrid, the committee explored possible future work. A few projects have been identified and will be further discussed to elaborate possible mandates for Board approval. These might include:

- Liquidation of funds (all types of funds and not just focusing on possibly systemically important funds)
- Best practices for CRAs in the investment management field
- Fees and expenses applicable to funds
- Best practices for custody institutions

Committee on Credit Rating Agencies – C 6

Chair: Randall Roy (US SEC)

An objective of Committee 6 in the year was to foster greater competition among credit rating agencies (CRA) and to increase the transparency of their internal procedures.

IOSCO worked on the premise that new entrants and smaller CRAs can best compete with larger, more established CRAs if they succeed at convincing investors of the high quality of their ratings. Transparency enables investors to compare the practices of different CRAs, providing smaller competitors a chance to break into the market. It also encourages larger CRAs to update their internal policies and procedures to improve the quality of their credit ratings in order to better compete with each other and newcomers to the market.

In April 2013, Committee 6 published a letter to the G20 describing this and other future work, as well as recent developments in the industry. The letter came in response to a communique issued by the G20 Finance Ministers and Central Bank Governors in November 2012 that stated: *"We encourage further work to enhance transparency of and competition among credit rating agencies and ask IOSCO to provide a report on ongoing work at our meeting in April."*

Committee 6 Mandates

In December 2012, Committee 6 published a report on *Credit Rating Agencies: Internal Controls Designed to Ensure the Integrity of the Credit Rating Process and Procedures to Manage Conflicts of Interest.* The report offers a comprehensive overview of the key risk controls established by CRAs to enhance the integrity of the credit rating process and the procedures established to manage conflicts of interest.

The findings from the report will help inform IOSCO's current review of the *IOSCO Code of Conduct Fundamentals for CRAs*, which is aimed at ensuring the Code remains relevant as the international standard for CRA self-governance. As part of this process, the provisions on transparency in the Code are under review and will be enhanced as appropriate.

IOSCO also carried out a survey of members and CRAs in mid-2012 to determine other areas for improvement in the Code.

The Code was originally published in December 2004 and revised in May 2008, after the outbreak of the financial crisis raised concerns about the role of CRAs and their management of potential conflicts of interest. The objective is to publish the final revised Code in the summer of 2014, after conducting a consultation on it earlier in the year.

Also in December 2012, IOSCO issued a consultation report on *Supervisory Colleges for Credit Rating Agencies,* which recommends establishing supervisory colleges for internationally active credit rating agencies. CRA colleges would be collaborative arrangements between supervisors aimed at promoting information sharing, consultation, and cooperation, in an effort to enhance risk assessment of internationally active CRAs and to support effective supervision of such CRAs.

The final report will be published in 2013 and will provide guidelines on how to establish and operate supervisory colleges.

Commodities Derivatives Markets - C 7

Co-chairs Sarah Josephson (US CFTC) and David Lawton (UK FCA)

In October 2012, Committee 7 issued its final report on *Principles for Oil Price Reporting Agencies* (PRA). These principles are intended to enhance the reliability of the oil price assessments that are referenced in derivative contracts subject to regulation by IOSCO members.

The report stemmed from a G20 request in November 2010 for an IOSCO report on how PRAs assess the oil spot market prices. Committee 7 prepared the report in collaboration with the International Energy Forum (IEF), International Energy Agency (IEF) and the Organization of Petroleum Exporting Countries (OPEC).

Based on this analysis of the PRAs and their operations, the G20 asked IOSCO and the three international organizations to provide recommendations for improving PRA functioning and oversight. After a consultation with stakeholders, the final report recommends the following measures and procedures for PRAs:

> Formal documentation and disclosure of methodology criteria and procedures together with processes for the periodic review and transparent amendment of methodologies.

> Priority to be given, where consistent with the PRA's approach to ensuring the quality and integrity of a price assessment, to concluded transactions and measures intended to ensure that the transaction data submitted and considered in an assessment are bona fide, including measures to minimize selective reporting.

> Procedures to ensure the integrity of information provided.

> Internal quality control procedures for the assessment process.

> Document retention standards.

> Measures to avoid conflicts of interest.

> A formal complaints process which includes recourse to an independent third party

> A commitment to make available to relevant market authorities audit trails and other related documentation.

> An annual independent external auditing of a PRA's compliance with its methodology criteria and the requirements of these principles.

The final report also calls for external auditors to review implementation of the principles by PRAs by June 2014. Committee 7 sent out a questionnaire in early 2013 to gain an idea of how PRAs are currently meeting the principles. With the information it gathers, Committee 7 will provide an update of its work on PRAs to the G20 by September 2013.

Task Forces

Board Level Task Force on Financial Benchmarks

Co-Chairs: Gary Gensler (US CFTC) and Martin Wheatley (UK FCA)

Background and mandate

Recent investigations and enforcement action into attempted manipulation of benchmarks have generated unprecedented regulatory and public focus on the integrity of benchmarks. In September 2012, IOSCO established a Board-level Task Force to identify and consider benchmark related issues (including transparency, methodology, governance, oversight and factors to be considered in transition to an alternative benchmark); and develop principles to support the quality and resilience of benchmarks.

A consultation report, setting out risks related to benchmark setting, and soliciting information to develop the principles was published on 11 January 2013. Feedback was received formally through 54 consultation responses, as well as through an industry roundtable attended by 60 different stakeholder groups held in London. Additional regional and bilateral stakeholder engagement was also held.

The task force prepared a near final set of principles that reflect industry feedback and the views of task force members. After discussion at the IOSCO Board in Sydney, these near final principles were circulated for written approval, and published in April 2013 for a second round consultation period of one month. Around 45 responses were received. The report was due to be published in mid July 2013.

Liaison and cooperation with other bodies

The task force has coordinated with international initiatives conducting related work, including the European Commission's consultation on the regulation of indices, ESMA's Consultation on benchmark setting processes, the BIS Economic Consultative Committee's work on reference rate practices; and it drew on the work conducted by IOSCO Committee 7 on Oil Price Reporting Agencies, and codes of practice developed by the industry.

Other Task Forces

Task Force on OTC Derivatives Regulation

Co-chairs: Kevin Fine ((Ontario, OSC) Brian Bussey (US SEC), Warren Gorlick (US CFTC), Tom Springbett (UK FCA)

The Task Force on OTC Derivatives is working on a new project: an analysis of the potential impact of post-trade transparency on the Credit Default Swap (CDS) market.

Task Force on Unregulated Markets and Products (TFUMP)

Co-Chairs: Greg Medcraft (Australia, ASIC) and Edouard Vieillefond (France, AMF)

Securitization

In November 2012, IOSCO released its final report on *Global Developments in Securitisation Regulation*, which proposes a series of recommendations aimed at ensuring securitization markets develop, but on a sound and sustainable basis.

As part of its ongoing work for the G20 on the shadow banking sector, the Financial Stability Board (FSB) requested that IOSCO conduct in 2012 a stock-taking exercise on certain aspects of securitization, including risk retention, transparency and standardization, and develop policy recommendations as necessary.

The final version of the Final Report proposed a toolkit containing 10 recommendations for consideration and analysis by securities regulators that are developing or reviewing risk retention and other securitization regulations. The final recommendations related to:

> Incentive alignment and risk retention;

> Transparency and standardization; and

> Further consideration or work on:

- Prudential treatment of securitization products;

- Accounting issues, especially regarding consolidation and retention;

- Developing guidance on possible measures that could eliminate or reduce the potentially negative effects of differences in securitization regulation and terminology on cross border transactions;

- Encouraging standardization to increase liquidity in secondary markets; and

- Encouraging sound mortgage underwriting practices (e.g., through implementation).

Retail Structured Products

In April 2013, IOSCO published a consultation report on *Regulation of Retail Structured Products,* which analyzes trends in the retail structured product market, and proposes a regulatory toolkit for IOSCO members. The work on regulation of retail structured products responded to concern within the organization about the regulatory challenges these products pose, particularly in the area of investor protection.

Task Force on Unregulated Financial Entities (TFUFE)

Co-Chairs: Nicoletta Giusto (Italy, CONSOB) and Ana Duarte (UK FCA)

The task force has been working closely with Committee 3 and Committee 5 on developing methodologies for identifying systemically important non-bank market intermediaries, including hedge funds. (Please see Committee 3 and Committee 5 above).

In 2012, the task force conducted its second IOSCO hedge fund survey. The survey enables the collection of internationally consistent data for the assessment of potential systemic risks from hedge funds. Regular monitoring by securities regulators of systemic risk indicators/measures, such as size, interconnectedness and substitutability, are important for building a time series of data that will help monitor trends in the global hedge fund industry and provide an invaluable insight into any potential systemic risks that hedge funds may pose globally to the financial system.

At the time of publication of this annual report, the task force was analyzing the aggregated data received, with the aim of finalizing a report on the analysis later in 2013.