



Report from the Chair of the SRO Consultative Committee (To be renamed the Affiliate Members Consultative Committee)

José Carlos Doherty

- > Chair of the SRO Consultative Committee
Chief Executive Officer,
The Brazilian Association of Financial and Capital Markets Institutions (ANBIMA)

The SRO Consultative Committee (SROCC) offers an important framework for members who are self-regulatory organizations (SROs) to share their experiences and expertise, and contribute to the on-going debate and standard-setting functions at IOSCO.

SROs promote orderly and sound capital markets through the monitoring of markets and systems, on-site inspections, and partnerships for enhancing rules, requirements and risk-based supervision. Recent changes to IOSCO's organizational structure gave the SROCC a major role in the policy work of the IOSCO committees. These changes were an explicit acknowledgment of the growing relevance of SROs.

The SROCC comprises 75 members representing SROs and international entities with an appropriate interest in securities regulation. During the period between the Annual Conference in Beijing in 2012 and the IOSCO Board meeting in Sydney in March 2013, the SROCC welcomed six new members.

A recent survey of SROCC membership confirmed its diversity: it includes exchanges, regulatory bodies, and entities with regulatory responsibilities, market infrastructures, international non-governmental entities, and investor protection funds. Despite the differences among SROCC members regarding the scope of their work and terms of reference, members actively cooperate with each other and support IOSCO work streams. They provide input and share expertise and experiences stemming from their proximity to market participants.

The SROCC participates in IOSCO's on-going work. It also holds two regular semi-annual meetings, one of which takes place at the IOSCO Annual Conference. To support its activities, the SROCC has two working groups: the *Ahead of the Curve WG* and the *Regulatory Staff Training WG*.

SROCC's recent activities and specific issues faced by its members

At the SROCC Meeting held at the IOSCO Annual Conference in Beijing in May 2012, I was elected chair of the SROCC for a two-year term. After the election in Beijing, the SROCC held its mid-year meeting in Istanbul in November 2012, and participated in two IOSCO industry roundtable discussions. The fifth training seminar for regulators and SROs was held in tandem with the Istanbul meeting. A letter was sent to the IOSCO Board summarizing points of the meeting and outlining the initial steps to develop a joint agenda.

During the period in question the SROCC carried out several activities that fell into the following categories:

Representation in the IOSCO Committees

Recent changes to IOSCO's organizational structure implied an extended participation of SROCC members in the work of the policy committees. This change was an acknowledgement of the role SROs play to protect investors and market integrity, and their contribution to



the regulatory structure. After IOSCO's annual meeting in Beijing, the following SROCC representatives began to participate as members and contribute with work, expertise and views on the critical regulatory issues addressed by the IOSCO committees mentioned below:

- > The Investment Industry Regulatory Organization of Canada (IIROC) with Committee 2 (Secondary Markets);
- > The Financial Industry Regulatory Authority (FINRA) with Committee 3 (Market Intermediaries);
- > The Brazilian Financial and Capital Markets Association (ANBIMA) with Committee 5 (Investment Management);
- > The National Futures Association (NFA) with Committee 7 (Commodity Futures Markets).

SROCC agreed that at each meeting its representatives would update members on the current work streams and agendas of the IOSCO Policy Committees and ask them for further contributions to the work of each committee. The first joint report of the members of the different committees took place at the following SROCC mid-year meeting on 6 November 2012 in Istanbul, Turkey.

SROCC members survey

Before the 2012 mid-year meeting in Istanbul, a survey among SROCC members was conducted in order to gain a clearer idea of the membership's composition and to draft a work plan more supportive of IOSCO in-

terests, and leveraging on members' diverse expertise, experience and interests

The survey was formulated based on information about members, the type of institution, the main self-regulatory functions performed, and on the IOSCO Principles' new assessment methodology.

The survey identified members' expertise and their main interests in the IOSCO agenda. Among the several IOSCO work streams, SROCC members indicated a greater interest in the following: impact of technology on markets and high frequency trading, market infrastructure, insider trading, OTC derivatives, suitability and distribution of complex products. This information proved useful for organizing the subsequent mid-year meeting.

Ahead of the Curve Working Group

Changing market conditions, widely-dispersed complex products and increasingly complex business models used by financial intermediaries increase the need for regulators to have broader competencies and greater resources. SROs have strengths that may meet these needs, such as proximity to the market, expertise on market operations and practices that enable them to be flexible and respond quickly. In this regard, the *Ahead of the Curve WG* is meant to detect potential regulatory concerns at an early stage, exchange information on emerging risks and help SROs to tackle problems as they arise.

While preparing the *2012 Ahead of the Curve Panel*, SROCC approved a change in the leadership of the working group, from the Financial Industry Regulatory



Authority of the US (FINRA), which was already coordinating the Regulatory Staff Training Working Group, to the Japan Securities Dealers Association (JSDA). The invitation for the JSDA to assume the presidency of the *Ahead of the Curve WG* was recognition of its commitment and distinguished leadership at the SROCC during the previous four years. The association kindly accepted the presidency.

During the panel of the *Ahead of the Curve WG* at the Istanbul Meeting of November 2012, the committee held discussions on several issues concerning SROs, including:

- > enhancement of customer protection, including recent initiatives adopted to safeguard customer funds after investment firms failures;
- > issues surrounding public offers, like misappropriation of information and sanctions regarding insider trading;
- > alerts on financial products such as real estate investment trusts, distribution of complex products and mini-manipulations in the option markets.

Training regulatory staff

Training regulatory staff is one of the pillars of SROCC work. Since 2008, the *SROCC Staff Training WG* has organized five training programs, which focused on rule making, supervision and enforcement guidelines from the IOSCO Principles and their assessment methodology. Those training seminars were attended by over 400 representatives from more than 80 reg-

ulators from 57 different jurisdictions around the world.

The sixth edition of the seminar was held in Istanbul in November 2012. The program included eight different panels regarding IOSCO principles for regulators, secondary markets and intermediaries. As in past seminars, discussions were held on IOSCO Objectives and Principles and the feedback received from participants was very rewarding.

Industry roundtable

The SROCC was invited to participate in two IOSCO industry roundtables, in Madrid in October 2012 and in Sydney in March 2013. The SROCC had the opportunity to discuss the appropriate focus of regulatory reforms in relation to the impact of technology on markets, distribution of investment products and effectiveness of the regulatory reforms.

2012 Mid-year Meeting and Communication with IOSCO

The 2012 SROCC mid-year meeting was hosted by The Association of Capital Market Intermediary Institutions of Turkey (TSPAKB). A detailed discussion on joint work plans and on the future structure of the SROCC was conducted, with the participation of the then Vice Chair of the IOSCO Board, Vedat Akgiray, and Secretary General David Wright and Deputy Secretary General Tajinder Singh of the IOSCO General Secretariat. A panel was held on *Technology Impacts on Markets*, along with other activities.

After the mid-year meeting in Istanbul, the SROCC sent a letter to the IOSCO Board providing a summary of the substantive issues discussed at the meeting and



suggesting some regulatory issues that members identified as possible future work streams for IOSCO.

Future Activities

Regarding the committee's next activities, at the time of writing this report, the SROCC was planning to hold its mid-year meeting and training seminar in Toronto, Canada in May 2013, and its annual meeting during the IOSCO Annual Conference in Luxembourg in September 2013. In Toronto, a panel on Risk of Cybercrime in Securities Markets was expected to be held and a training seminar on IOSCO Principles for supervision of intermediaries and for enforcement.

The SROCC also seeks to identify the specific issues to which it can proactively contribute with members' expertise, discussion panels, training and documented work. Topics regarding technological issues and customer protection were both included in the 2013 meeting and training agendas. In its letter to the IOSCO Board, the SROCC suggested new mandates on how regulators should oversee the use of social media, the use of automated advice, the verification of rumors and the follow up on public announcements and events after those announcements. Other possible work streams include SME financing and crowd funding. The aim would be to identify the challenges posed by these opportunities, both of which are responses to the shifting conditions of global financial markets.

Challenges ahead for the SROCC

In the current context of rapidly changing global financial markets, the front-line regulatory expertise of

SROs is becoming increasingly important and demanding. The SROCC's recent work has underscored the important role it plays in strengthening investor protection, market integrity and financial stability—a role already recognized by IOSCO.

As a result, several challenges lie ahead for the SROCC as it continues its work with IOSCO, namely:

- > Identifying and analyzing key and emerging risks in the global financial system;
- > Contributing proactively to IOSCO's work, assisting with the implementation of IOSCO principles and the development of sound and secure global securities markets;
- > Ensuring proper coordination among the main entities in charge of investor education and training, avoiding overlap and establishing a productive agenda for enhancement of investor education;
- > Improving its coordination with other committees within the IOSCO ambit and aligning its structure to better support the enhanced roles played by IOSCO and SROs on the international regulatory scene.

Carrying out further work on these and other subjects specific to the SROCC should be a major challenge in the coming years. The SROCC is deeply committed to helping IOSCO fulfill its objectives and improve international standards.