



## Report from the Incoming Chair of the IOSCO Board

### Greg Medcraft

> Incoming Chair of the IOSCO Board  
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I take on the role of Board Chair during a period of challenge and opportunity for securities regulators globally. Market based financing is becoming increasingly important as is the need for consistent regulation of cross-border activity. Growth and emerging economies are also becoming increasingly important to the health of the global economy.

My key objective as Board Chair will be for IOSCO to be recognized as the key global reference body for securities regulation. I want IOSCO to be seen as effective, pro-active and forward looking in meeting these challenges and opportunities.

## IOSCO'S ROLE

IOSCO has a role and is well placed to support its members as we address each of these challenges and opportunities.

### 1. Market-based financing

New rules to strengthen the banking system are imposing higher capital and liquidity requirements. The net effect of this is often a decreased access to debt capital and an increased cost to business. As a result, many businesses are turning to market-based financing to source their capital.

On the supply side, the continuing global growth of the pension and superannuation sectors is a key driver of market-based financing, as most of their funds are invested in the debt and equity capital markets. The global growth of pension and superannuation sectors is expected to continue in the coming decade as governments in emerging markets start or expand retirement savings programs, and in many developing countries, an aging population contemplates how to fund their retirement.

This shift of funds from the banking sector to the securities sector means that financial services and markets regulation (and therefore IOSCO) have an increasingly important role to play.

### 2. Consistent regulation

Globalization is a fact of life in financial services and securities markets with more markets and products crossing jurisdictional borders. Any inconsistencies or differences in regulatory frameworks can increase the cost of capital and doing business, which may ultimately affect economic growth.

Inconsistencies or differences are inevitable, however, as policy makers in each country will inevitably take different approaches to implementation for various domestic reasons.

IOSCO has an important role to play in developing global standards and principles to guide its members and other stakeholders and so promote consistent and aligned regulation between different jurisdictions based on equivalent outcomes.



### 3. The rise of emerging markets

Emerging economies are the key to leading global economic growth over the next 10 years. As their markets develop, so will their need for effective regulation. It's important that growth and emerging economies have sound regulation that promotes market integrity and confidence. It also helps if they adopt regulation that is consistent with other jurisdictions, so that regulatory arbitrage is minimized and cross-border transactions are not impeded.

By developing global rule books and regulatory guidance, IOSCO can play a key role in supporting the development of regulatory capability and capacity in these economies.

IOSCO can also provide a voice in other international fora (such as the Financial Stability Board) for the interests and concerns of regulators in these economies.

## MY VISION FOR IOSCO – THE KEY GLOBAL REFERENCE BODY FOR SECURITIES REGULATION

Developing into the key global reference body will involve building on and developing the good work of IOSCO in three ways – through our standard setting work, through engagement and through cooperation.

### Standard setting

We should work to ensure the regulatory guidance we develop is timely, relevant and usable. We should aim to be ahead of the curve in the topics we choose and develop sufficiently granular guidance to guide policy makers and regulators. Our recent work on financial benchmarks is a fine example of the role we can play as standard setters.

### Engagement

We should ensure IOSCO continues as the premier forum for regulators to engage and work together. We have a proud record of helping to build trust and understanding among regulators from different markets who may have different philosophies about regulation. Equally important is ensuring we engage with industry and other stakeholders. Effective and meaningful consultation with industry is fundamental to good policy development. Maintaining a close dialogue with industry is critical as it helps us to better understand emerging risks and the impact and consequences of the steps we propose taking.

Finally, engagement with policy makers is essential. It allows us to initiate and influence regulatory reform across jurisdictions.

### Cooperation

IOSCO also has a proud record in promoting cooperation between regulators. The Multilateral Memorandum of Understanding on cooperation and information sharing, now with 95 members as full signatories, has been an important support for cooperation in enforcement matters that span multiple jurisdictions.

There are opportunities for us to extend this same level of cooperation to investigations, to promote better supervision of global market players and solving global issues.

Another element to cooperation is providing technical assistance to regulators in emerging markets. About 75% of IOSCO's members are from developing countries. IOSCO supports them in implementing standards and ensuring those standards are effective.

Finally, cooperating with industry through the IOSCO Foundation will enable more technical assistance to be provided.

## DELIVERING ON THE VISION - OPPORTUNITIES FOR 2013/2014

In the next year, I see a number of opportunities for us to deliver on this vision.

### The IOSCO Foundation: Building regulatory capability

We will continue to work to establish the IOSCO Foundation in 2013. I strongly urge all IOSCO members to work with industry and other donors in their jurisdictions to support the Foundation on an initial and on going basis.

Once established, the Foundation will be important to delivering on the vision. It will fund capacity building through the provision of technical assistance, training and education to improve the capability of regulators and the quality of their supervision globally. This will help regulators – particularly in growth and emerging economies – to develop the tools and resources they need to meet many challenges, including the growth of market-based finance.

### Innovation-driven complexity

Keeping pace with innovation-driven complexity is an ongoing challenge for regulators globally. It can be a

constant struggle for regulators to monitor the emerging risks and to respond in a way that doesn't unduly restrict the benefits of innovation.

IOSCO will need to be proactive and forward looking to address this challenge.

We see examples of innovation-driven complexity in products, markets and technology. IOSCO has a role to play in each of these.

Complex products can be difficult for investors to understand. This can lead to them being mis-sold, particularly when investors are searching for yield. This is particularly relevant in the current environment. Our current work on retail structured products will provide us with a tool kit of regulatory measures to address these risks. The Committee on Retail Investors, which was established at the Sydney Board meeting in March 2013, will be an opportunity for us to share and better understand the measures many of us have developed to assist investors in making confident and informed decisions about investing in other financial products.

Innovation-driven complexity in markets has presented us with dark pools and high-frequency trading which pose new regulatory risks. Advances in technology have led to the rise of cybercrime in the financial system globally. There are on-line scams promoting *bogus* investments, and equity trading accounts are at risk of being hacked. The way market information is distributed has changed dramatically, with social media playing a greater role. These developments present new risks to which we must adapt. I look forward to further work on these issues through the next year.

### Cross-border Regulation

In the coming year, IOSCO will be developing a tool kit of measures used by members to regulate the activities of foreign firms in their jurisdictions. The work is likely to consider measures that include substituted compliance, mutual recognition, passporting and expedited processing. The work may lay the foundation for the development of guidance about the co-ordinated use of measures in the tool kit.

Development of the tool kit will contribute to reducing the adverse impact of regulatory differences on cross border activity and, by improving interoperability of our markets, will provide more cost effective access to cross-border capital markets.

### International Secondments

We can further deepen co-operation by encouraging and facilitating staff secondments between our mem-



bers. Secondments give us the chance to share experiences and established best practice, build our collective skills and knowledge and strengthen our working relationships. They will also help in creating greater consistency in how we approach the common problems and challenges we face.

IOSCO has a role to play in encouraging and supporting secondment activity. This year we will develop a Register which will record secondment activity between members. The Register will provide transparency about secondment initiatives between our members and reduce search costs for agencies wanting to participate in secondments.

Finally, I want to thank outgoing Chair, Masamichi Kono, for his significant contribution in leading IOSCO's transition to a single Board (and in his previous roles as Vice-Chair and then Chair of the Technical Committee).

In each of these roles he has provided well informed leadership in the many policy areas in which we have worked. Masa has been unfailingly courteous in guiding discussion and seeking to achieve consensus in often challenging circumstances. He has at all times ensured IOSCO's voice and position are well understood and heard in the many international fora in which he has represented IOSCO. For this we thank him.

## CONCLUSION

I look forward to working with the Board, our Emerging Markets Committee (to be formally renamed the Growth and Emerging Markets Committee at the IOSCO Presidents Meeting in September) and our membership during my term to both build and develop IOSCO, and support our members in meeting the many challenges we face together.