Report from the Outgoing Chair of the IOSCO Board

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In the period from May 2012 to April 2013, IOSCO played an increasingly prominent role in global standard-setting for financial markets. Much of this work was mandated by the G20 and the Financial Stability Board (FSB), as part of the international financial regulatory reform agenda. IOSCO significantly enhanced both its visibility and its engagement with global stakeholders in the period.

The past few years have been challenging for IOSCO, as it sought to develop principles for financial reform and to deliver reports within an extremely tight time frame. But the experience was also rewarding. Members who participated in the multiple work streams deserve credit for moving forward IOSCO and its agenda. Since it is impossible to describe all of IOSCO's activities in this short report, I will focus on a number of key policy issues related to the G20/FSB agenda that shaped IOSCO's work over the past year. I would also like to touch on the important efforts to strengthen IOSCO´s organizational structure for the purpose of making it more inclusive and better able to serve its members. Also worthy of mention are the efforts to enhance international cooperation in the implementation and enforcement of market regulation on a global scale.

Important work mandated by the G20/FSB

Five years after the international financial crisis erupted in 2008, work mandated by the G20/FSB is well advanced, but far from complete. Increasingly, attention is focused on the non-bank sector and financial market infrastructure, i.e., areas in which IOSCO has particular relevance and expertise.

OTC Derivatives Market Reform

Work at IOSCO

IOSCO, in collaboration with other standard setters such as the Basel Committee on Banking Supervision (BCBS) and the BIS Committee on Payment and Settlement Systems (CPSS), was tasked with developing principles and standards that would promote reforms to strengthen financial market infrastructures, particularly in the context of over-the-counter (OTC) derivatives. The recent financial crisis exposed weaknesses in the structure and operations of the OTC derivatives markets and contributed to the build-up of systemic risk. In 2009, the G20 leaders launched a reform program to improve transparency, mitigate systemic risk and protect against market abuse in the OTC derivatives markets. After issuing reports on the trading of OTC derivatives (February 2011) and a follow-up analysis (January 2012), IOSCO published reports on the requirements for mandatory clearing (February 2012) and on international standards for regulation of derivatives market intermediaries (June 2012).

Work at CPSS-IOSCO

In parallel, IOSCO conducted joint work with CPSS (under the title of CPSS-IOSCO) to review and update

international standards for financial market infrastructures (FMIs)[1] that facilitate the clearing, settlement, and recording of monetary and other financial transactions. FMIs can strengthen the markets they serve and play a critical role in fostering financial stability. If not adequately managed, FMIs can pose significant risks to the financial system and be a potential source of contagion, particularly in periods of market stress. Although FMIs performed well during the most recent financial crisis, their experience had important lessons for effective risk management. In April 2012, IOSCO and CPSS jointly published a report on *Principles for Financial Market Infrastructures* (PFMIs), which replaced previously existing recommendations and principles applicable to FMIs. This report supports the initiatives of the G20/FSB to strengthen core financial infrastructures and markets. It also incorporates guidance for central counterparties (CCPs) that clear OTC derivatives. All CPSS and IOSCO members are committed to adopting and applying the updated standards to

[1] The term FMIs refers to systemically important payment systems, central securities depositories, securities settlement systems, and central counterparties, as well as trade repositories for OTC derivatives markets.

the relevant FMIs in their jurisdictions, to the fullest extent possible.

IOSCO is also developing guidance on the essential features of recovery and resolution regimes for FMIs. Since the disorderly failure of an FMI could lead to severe systemic disruptions, they should have effective recovery plans and resolution regimes that ensure the continuation of core services and an orderly resolution. To this end, CPSS-IOSCO published in July 2012 a consultative report on the recovery and resolution of FMIs.

In a related area, CPSS-IOSCO is developing standards for reporting requirements to trade repositories (TR) in order to facilitate effective global aggregation of data. After publishing in January 2012 a report on OTC derivatives data reporting and aggregation requirements, CPSS-IOSCO issued in April 2013 a consultative report on authorities' access to TR data.

Work on margin requirements for non-centrally cleared derivatives transactions

An important element of OTC derivatives market reform is the development of standards for margin requirements on non-centrally-cleared derivatives. The G20/FSB mandated this work in 2011 as part of an effort to mitigate systemic risk of non-centrally cleared OTC derivatives markets and to create incentives to centrally

clear those products to the extent possible. A working group was established in conjunction with the Basel Committee for Banking Supervision (BCBS) to take forward this work, and a consultative report was issued in July 2012. After considering the public comments to the report and the results of a quantitative impact study (QIS), the working group released a near-final proposal in February 2013 for another round of consultation soliciting feedback on a number of specific issues. The final report is due later in 2013.

Work on shadow banking and non-bank G-SIFIs

Regulators focused on shadow banking taking into account the possibility of bank-like risks to financial stability during the most recent financial crisis.

In response to a request from the G20 in November 2010, the FSB identified five specific areas[2] in which regulatory reform was needed to mitigate the potential systemic risks associated with shadow banking.

[2] Those five areas are, (i) interaction of banks with shadow banks, (ii) money market funds, (iii) other shadow banking entities, (iv) securitization, and (v) securities lending and repos

Among those five areas, IOSCO completed work on money market funds (MMFs) and securitization. IOSCO issued final policy recommendations for MMFs in October 2012, and for securitization in November 2012.

The G20 also requested that the FSB develop, in consultation with IOSCO, methodologies for the identification of non-bank, non-insurance global systemically important financial institutions (non-bank G-SIFIs). IOSCO has made significant contributions to the FSB work on SIFIs during the past year in this respect.

Other G20/FSB-related work

Without entering into detail, IOSCO proceeded to work on other various subjects related to the G20/ FSB agenda during the past year. For example, IOSCO continued work to promote market integrity and efficiency, and mitigate the risks posed to the financial system by the latest technological developments, including high-frequency trading (HFT). A consultation report was issued in March 2013 on *Regulatory issues raised by changes in market structure*. Another was published in April 2013 on *Technological challenges to effective market surveillance issues and regulatory tools*.

The G20 also asked IOSCO to continue work on issues related to commodity derivatives markets. One request was for IOSCO to prepare recommendations to improve the function and oversight of oil price reporting agencies (PRAs). IOSCO published a report in October 2012 that detailed a set of recommended practices for PRAs aimed at promoting the quality and integrity of oil price assessments. Again, in response to a request from the G20, IOSCO published in the same month a survey on the implementation of IOSCO principles on the regulation and supervision of commodity derivatives markets. The survey indicated that a majority of respondents were broadly compliant with those principles.

Also important was IOSCO´s work during the past year on financial benchmarks used as references in financial markets world-wide. In light of the significant issues raised by investigations and enforcement actions regarding attempted manipulation of financial benchmarks such as LIBOR, IOSCO worked in coordination with other international organizations to develop globally consistent policy guidance and principles for financial benchmarks and related activities. Restoring confidence in widely used financial benchmarks is a matter of urgency. IOSCO is expected to complete a final report on benchmarks in mid-2013.

Other important IOSCO work

Strengthening IOSCO's organizational structure

IOSCO's global membership, now comprising more than 200 members covering 95% of the world's securities markets, gives it the scale and breadth to be a truly global standard-setter for market regulation. The streamlining of IOSCO's structure with the creation of the IOSCO Board has rendered IOSCO more inclusive and efficient. The organization now provides better and timelier services to its membership, and enjoys greater visibility and engagement with the global stakeholder community. Work is ongoing to establish the IOSCO Foundation. Once established, the Foundation is expected to enhance capacity-building activities, particularly for emerging market member jurisdictions.

Cross-border cooperation in enforcement

As financial markets become increasingly globalized, the enforcement of market regulations requires greater cross-border cooperation, information-sharing and coordination of regulatory action. The IOSCO Multilateral Memorandum of Understanding (MMOU) has become an essential tool for international enforcement cooperation and information sharing. The number of signatories to the IOSCO MMOU is now 95, and is expected to grow. During the past year, IOSCO has provided technical assistance to those members who are striving to become signatories.

Conclusion

The above is only a quick overview of the significant achievements of IOSCO during the past year, and does not do full justice to all the hard work accomplished by members and the Secretariat during this period. Under the excellent leadership of new Board Chair Greg Medcraft, IOSCO is on track to achieve much more in the coming year as the primary global standard-setter in the area of financial market regulation.