Activities of IOSCO's Policy Committees in the Year

The IOSCO Board was constituted at the 2012 Annual Meeting in Beijing. It subsumed 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 sought to become more effective at achieving its objectives of protecting investors, maintaining fair, efficient and transparent markets, and of identifying and mitigating systemic risks.

The streamlined governance structure has made the organization more efficient and inclusive, enabling it to convey better its messages to stakeholders and the wider public.

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

> Issuer Accounting, Audit and Disclosure;
> Regulation of Secondary Markets;
> Regulation of Market Intermediaries:
> Enforcement and Exchange of Information;
> Investment Management;
> Credit Rating Agencies;
> Commodity Derivatives Markets; and
> Retail Investors

The Board also oversees the activities of the Growth and Emerging Markets Committee (GEM) Committee. The GEM Committee 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 GEM and the former Technical Committee, to create the policy committees. These committees share all three of IOSCO´s goals.

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 2014 with examining relevant developments in the financial markets. They included the following:

> The Board-level Task Force on Financial Benchmarks
> Task Force on OTC Derivatives Regulation (OTCDTF)
> Task Force on Cross-Border Regulation
> Working Group on Risk Mitigation Standards
> Task Force on Long-Term Financing
> Audit Quality Task Force

Policy Committees

Committee on Issuer Accounting, Audit and Disclosure - C1

Committee Chair:
Julie A. Erhardt (US SEC)
Committee Vice Chair:
Patrick Parent (France AMF)

The Committee on Issuer Accounting, Audit and Disclosure (C1) is devoted to improving the development of accounting and auditing standards, and enhancing the quality and transparency of the financial information that investors receive from listed companies and financial institutions. IOSCO considers the accuracy, integrity and comparability of financial statements, and the transparency they provide, to

be essential for protecting investors and thereby maintaining investor confidence in the public capital markets. Investor confidence also contributes to the long-term stability of the international financial system. C1 monitors and supports the work of the international accounting standard-setting bodies. This involves monitoring the projects undertaken by the International Accounting Standards Board (IASB) of the International Financial Reporting Standards Foundation (IFRS Foundation), observing the IFRS Interpretations Committee (IFRIC), and participating in the IFRS Advisory Council and other IASB working groups.

The IFRS Foundation is the legal entity under which the International Accounting Standards Board operates. Its mission, through its IASB standard-setting body, is to develop a single set of high quality global accounting standards. Committee 1 contributes to the standard-setting work of the IASB through its involvement in the IASB´s work streams and its comment letters on IASB 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. C1 provided input in 2014 on numerous IASB proposals. These comment letters are available on the IOSCO website.

IOSCO believes that 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, C1 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) and participates in their respective Consultative Advisory Groups (CAGs). C1 provided input in 2014 on several IAASB and IESBA proposals. These comment letters are also available on the IOSCO website.

In response to a string of corporate financial reporting scandals at the turn of the century, IOSCO became a founding member of the Monitoring Group (MG) of international organizations that is committed to advancing the public interest in areas related to international audit standard setting and audit quality. C1 also represents IOSCO as an official observer at the International Forum of International Audit Regulators (IFIAR) Plenary meetings. In this capacity, C1 provides updates to, and liaises with, IFIAR on relevant IOSCO work streams.

Other Activities in 2014

In September, IOSCO issued a proposed *Statement on Non-GAAP Financial Measures,* which sets out IOSCO´s expectations for issuers with respect to their presentation of financial measures other than those prescribed by Generally Accepted Accounting Principles (GAAP).

Non-GAAP financial measures can be useful to issuers and investors because they can provide additional insight into an issuer's financial performance, financial condition and/or cash flow. The use of non-GAAP financial measures also can provide issuers with flexibility in communicating useful, entity-specific information.

Problems can arise, however, when non-GAAP financial measures are presented inconsistently, defined inadequately, or obscure financial results determined in accordance with GAAP. Furthermore, non-GAAP financial measures typically lack a standardized meaning and thus are generally not comparable from one issuer to the next.

This statement is intended to assist issuers in providing clear and useful disclosure for investors and other users of non-GAAP financial measures, and to help reduce the risk that such measures are presented in a way that could be misleading.

The final statement is expected to be published in 2015.

C1 worked in 2014 on developing an IOSCO statement and accompanying guide for use by audit firms when preparing their transparency reports. This work, to be published in 2015, focuses on how audit firms can be transparent to investors and other stakeholders about their firm's governance and audit quality indicators.

In 2014 C1 also conducting fact-finding work to better understand the perspectives of various capital market participants—including investors, issuers, and audit firms—on integrated reporting.

Committee 2 on Regulation of Secondary Markets - C2

Committee Chair:
Susanne Bergsträsser (Germany BaFin)
Committee Vice Chair:
Kenosi Selane (South Africa FSB)

The Committee on Regulation of Secondary Markets (C2) looks at recent developments in the structure of global capital markets and financial market infrastructure, and analyzes how they contributed to, and are affected by, the financial crisis.

In 2014, C2 worked on a consultation paper in conjunction with the Committee on the Regulation of Market Intermediaries (C3) on *Mechanisms for Trading Venues to Effectively Manage Electronic Trading Risks and Plan for Business Continuity*, which it published in the first half of 2015 for public comment.

To inform its work, C2 sent out surveys in March 2014 to trading venues, regulators and, with the assistance of C3, to market intermediaries in March 2014. The survey enabled C2 to gather information on:

- how trading venues in various jurisdictions seek to ensure proper functioning and secure access;
- how trading venues develop and implement business continuity plans;
- how the regulatory tools used to manage the risks associated with electronic trading work to ensure the robustness of systems and the effectiveness of business continuity plans; and
- recent events and any lessons learned.

The project forms part of IOSCO's ongoing work on the impact of technology on markets. Although technological developments and electronic trading offer many benefits, recent incidents of fat finger errors and trading glitches and delays illustrate the risks associated with the markets' increasing reliance on technology. If problems arise, technological innovation can pose risks to efficiency and integrity of markets and undermine the overall confidence in markets.

Committee 2 in 2014 also began work on a new mandate to study the liquidity of secondary corporate bond markets globally. Key issues that could be considered include:

- Whether bond market liquidity has decreased compared to historical norms in member jurisdictions and, if so, the potential negative consequences for fair and efficient markets, investor protection and financial stability.
- The potential causes for the perceived decrease in liquidity and, whether a liquidity crisis will

or will not develop and if it does, the potential consequences.

> The view of the industry as to whether the market will be able to solve any liquidity issue on its own, or whether there could be a role for regulatory intervention.

Committee 3 on Regulation of Market Intermediaries – C3

Committee Chair:
Stephen Po (Hong Kong SFC)
Committee Vice Chair:
Choi Kiyoung (Korea FSC/FSS)

Proposed Methodologies to identify systemically important non-bank financial entities

In 2014, C3 worked with the Financial Stability Board and the Committee on Investment Management (C5) to develop an assessment methodology for identifying global, non-bank non-insurance systemically important market intermediaries in the securities sector. In January 2014, the FSB and IOSCO issued a first consultation paper on a proposed methodology. It was followed up on by a second consultation on an updated document issued in March 2015. (*See the section on the Committee on Investment Management – C5 for more details*).

Global Capital Standard

In March 2014, C3 published for public consultation *A Comparison and Analysis of Prudential Standards in the Securities Sector,* which highlighted similarities, differences and inconsistencies among the different prudential frameworks employed by securities commissions in different jurisdictions. The report formed part of a project of the Joint Forum--comprising IOSCO, the Basel Committee on Banking Supervision and the International Association of Insurance Supervisors-- to create a uniform global capital standard within the banking, insurance and securities industries. The aim is to eliminate gaps and inconsistencies between prudential frameworks, thereby reducing regulatory arbitrage and competitive inequalities across jurisdictions, and to facilitate the convergence of prudential standards over the long term.

The capital adequacy standards should enable securities firms to absorb losses and wind down their businesses without generating losses for their customers or the customers of other broker-dealers and without disrupting the orderly functioning of the financial markets.

After the consultation, C3 published the final report in February 2015. IOSCO´s objective is to draw on the information reviewed in the prudential standards report to update its 1989 *Report on Capital Adequacy Standards for Securities Firms.*

Social Media and Automation of Advice Tools

In July 2014, IOSCO published its *Report on the IOSCO Social Media and Automation of Advice Tools Surveys.* The paper analyzed the results of four surveys on the use of social media and automated advice tools in capital markets, and how regulators oversee the use of these tools.

IOSCO undertook this project to explore how technology such as the Internet is changing the way market intermediaries interact with both potential and existing customers. Social media provides a means to multiply the number of interactions between investors and market intermediaries. From an intermediary's perspective, an automated tool presents an opportunity to formulate and deliver advice to customers in a more efficient and cost effective way. But the growing use of social media and automated tools by intermediaries also presents numerous challenges to regulators.

Results from the surveys provided a snap-shot of how regulators and intermediaries use and oversee these technologies. The results indicated that increasingly regulators are using social media sites as a source of general information in the supervision of firms, while the use of automated advice tools is growing around the world, as intermediaries use these tools to assist with their suitability and **Know Your Customer** (KYC**)** obligations.

Other mandates

In February 2014 C3 received a mandate from the IOSCO Board to look at how IOSCO member jurisdictions are working to reduce the reliance on credit ratings of markets intermediaries. The work is in line with the FSB's *Roadmap* for reducing the perceived over-reliance on credit rating agencies, while strengthening the risk assessment capabilities of financial firms. C3 expects to publish a consultation paper in the first half of 2015.

The IOSCO Board also handed C3 a mandate in February 2014 on securities-based crowd-funding.

Committee on Enforcement and Exchange of Information – C4

Committee Chair:
Georgina Philippou (UK FCA)
Committee Vice Chair:
Jean-François Fortin (Québec AMF)

Credible Deterrence

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, casting doubt on the effectiveness of regulators to eradicate and punish egregious misconduct.

In light of the public demand for tougher sanctions to deter this type of market misconduct, C4 in 2014 advanced its plans to create a credible deterrence framework for securities regulation, including strategies and good practices. Deterrence is credible when would-be wrongdoers perceive that the risks of engaging in misconduct outweigh the rewards and when non-compliant attitudes and behaviors are discouraged.

Taking into account the wide divergence in international sanctions regimes, C4 worked to identify a set of factors upon which jurisdictions could build credible deterrence frameworks using real life examples from IOSCO members. The factors and the real life examples will highlight useful enforcement practices and powers adopted by various regulatory authorities around the world. This will help regulators to design, develop, review and consider their enforcement strategies. The upcoming report on credible deterrence is therefore of interest to regulators from both developed and emerging markets. C4 expects to publish the report on credible deterrence in June 2015, at the IOSCO Annual Conference in London.

Enforcement Cooperation

IOSCO believes that enforcement cooperation among regulators is essential to attain effective global regulation and robust securities markets around the globe. To that end, C4 continued to work with the Screening Group to encourage global enforcement cooperation under the IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (MMoU), 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. It 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. (*For more information on the MMoU see the Screening Group under Implementation and the MMoU*).

Committee 5 on Investment Management - C5

Committee Chair:
Natasha Cazenave (France AMF)
Committee Vice Chair:
Hao Xu (China CSRC)

Proposed Methodologies to identify systemically important non-bank financial entities

In January 2014, the Financial Stability Board and IOSCO issued for public consultation the report *Assessment Methodologies for Identifying Non-bank Non-insurer Global Systemically Important Financial Institutions (NBNI G-SIFIs).*

The FSB and IOSCO collaborated to develop assessment methodologies for NBNI G-SIFIs that complement the current methodologies for identifying global systemically important banks and insurers. C5 worked on developing a methodology aimed at assessing the systemic significance of investment funds; the Committee on the Regulation of Market Intermediaries (C3) identified a set of similar indicators for market intermediaries.

The overarching objective in developing the methodologies is to identify non- bank, non-insurer financial entities whose distress or disorderly failure, due to their size, complexity, systemic interconnectedness or lack of substitutability, would cause significant disruption to the global financial system and economic activity across jurisdictions.

Consultative responses were received from more than 50 respondents, including trade associations, individual firms and individuals.

To address these comments, the FSB and IOSCO began work on a second consultative document, which was issued in March 2015.

Custody and Collective Investment Schemes (CIS).

Committee 5 continued its work on Collective Investment Schemes (CIS) during 2014.

The safekeeping of client assets by intermediary custodians has come under greater scrutiny following the 2007-2008 financial crisis and several corporate collapses, such as the insolvencies of Lehman Brothers and MF Global, and the Madoff Ponzi scheme fraud.
Responding to these concerns, C5 published in October 2014 a consultation report on *Principles regarding the Custody of Collective Investment Schemes´ Assets.* The aim of the report was to gather the views of investment managers, custodians, institutional investors and other interested parties on a set of proposed Principles for the Custody of Collective Investment Schemes´ (CIS) Assets.

The consultation report built on C3´s *Recommendations Regarding the Protection of Client Assets*, published in January 2014, as well as on the 1996 *Guidance on Custody Arrangements for Collective Investment Schemes*. It provides guidance to regulators on how to enhance their supervision of intermediaries holding client assets.

The consultation report proposed nine principles, some of which focused on general aspects relating to the custody function; the others related more specifically to the appointment and ongoing engagement of custodians.

In the year, C5 proposed a mandate on the creation of a framework for the termination of a CIS, which was approved in January 2015. C5 will consider whether to elaborate a set of principles or recommendations to be applied in the event of the liquidation of a CIS, with the objective of ensuring the fair treatment of investors.

Good Practices on Reducing Reliance on CRAs in asset management

In June 2014, C5 published a consultation report on *Good Practices on Reducing Reliance on CRAs in asset management*, which seeks to gather the views and practices of investment managers, institutional investors and other interested parties. The objective is to develop a set of good practices on reducing over reliance on external credit rating in the asset management space.

The report stresses the importance for asset managers to have the appropriate expertise and processes in place to assess and manage the credit risk associated with their investment decisions. Recognizing the utility of external ratings, the report mentions that they can be used as an input among others to complement a manager's internal credit analysis and provide an independent opinion as to the quality of the portfolio constituents. However, in order to avoid the over-reliance on external ratings, the report lists some possible good practices that managers may consider when resorting to external ratings.

Other Mandates

The committee in 2014 began a review of IOSCO´s 2004 *Report on Elements of International Regulatory Standards on Fees and Expenses of Investment Funds,* which deals with issues such as disclosure of fees and expenses to the investor, transaction costs and performance fees. The objective of the review is to identify standards that need to be updated or expanded to reflect both market and regulatory changes.

C5 undertook the third IOSCO hedge fund survey in fourth quarter 2014. The survey is aimed at gathering internationally consistent data for the assessment of potential systemic risks from hedge funds. The data is shared to facilitate international supervisory cooperation in the risk assessment.

Committee on Credit Rating Agencies – C 6

Committee Chair:
Rita Bolger (US SEC)
Committee Vice Chair:
Yasuto Watanabe (Japan FSA)

Revision of the IOSCO Code of Conduct Fundamentals for Credit Rating Agencies

In February 2014, Committee 6 published the consultation paper *Code of Conduct Fundamentals for Credit Rating Agencies* (CRAs), which proposed significant revisions and updates to the current IOSCO code of conduct.

The IOSCO CRA Code is intended to offer a set of robust, practical measures as a guide to CRAs for the protection of the integrity of the rating process. The code seeks to ensure that issuers and users of credit ratings, including investors, are treated fairly, and to safeguard confidential material information provided by issuers.

The IOSCO CRA Code was first published in 2004 when few jurisdictions had laws governing activities of CRAs. It was later revised in 2008 to include significant disclosure provisions that addressed concerns regarding the quality of information that CRAs relied on; suggestions that CRAs were too slow to review existing ratings and make downgrades as appropriate; and the possible conflict of interest arising from CRAs advising issuers on how to design structured finance products.

The final CRA Code was published in March 2015.

Other CRA Products

The IOSCO Board in late 2014 gave C6 a mandate on *Other CRA Products.* The objective of the project is to gain a clearer understanding of those CRA products that differ from the traditional issuer-paid or subscriber paid credit ratings, but may be used by investors and others to make investment and other credit-related

decisions. C6 hopes to understand better how these other projects are produced by CRAs and used by market participants to measure credit risk of issuers or securities.

Committee on Commodity Derivatives Markets - C 7

Committee co-Chairs:
David Lawton (UK FCA)
Sarah Josephson (US CFTC)

Principles for Oil Price Reporting Agencies

In September 2014, Committee 7 published its report on the *Implementation of the Principles for Oil Price Reporting Agencies.* This report was a follow-up to the report on the *Principles for Oil Price Reporting Agencies* (PRA), which was issued in 2012 as part of an effort to enhance the reliability of the oil price assessments that are referenced in derivative contracts and subject to regulation by IOSCO members.

The final PRA principles were a response to the G20 request in 2010 for a report on how PRAs assessed the oil spot market prices. The mandate responded to growing concerns that the way oil prices were set and published made them vulnerable to manipulation in both physical and derivatives markets. Committee 7 prepared the principles in collaboration with the International Energy Forum (IEF), International Energy Agency (IEA) and the Organization of Petroleum Exporting Countries (OPEC).

The 2012 report called on the PRAs to implement the principles by October 2013. It also called on IOSCO to review implementation of the PRA Principles at June 2014, eighteen months after publication. The implementation report published in September 2014, in collaboration with the IEF, IEA and the OPEC, concludes that good progress was made during the first year of implementation, but that the implementation of the PRA Principles is an ongoing endeavor. It suggests that further work will be needed once the PRA Principles become more embedded in the PRA processes. To this end, Committee 7 is currently working on the second year implementation review of the PRA Principles, which is expected to be submitted to the G20 in late 2015.

IEF, IEA and OPEC, in liaison with IOSCO, prepared a report on the outcomes of the Survey of Oil Market Participants entitled *Impact of the Principles for Oil PRAs on the Physical Oil Market*. A summary of the report was submitted to the G20 Energy Sustainability

Working Group (ESWG) meeting in Antalya on 24-25 February 2015, and will subsequently be presented to the Turkish G20 Presidency ESWG later in the year. This qualitative assessment will be further informed by a quantitative analysis later in the year, which will be prepared by the international organizations.

Further Evaluation of IOSCO Principles for Commodity Derivatives Markets

In September 2014, C7 published the *Update to Survey on the Principles for the Regulation and Supervision of Commodity Derivatives Markets,* which updates its 2012 review of the implementation of IOSCO's principles for commodity derivatives markets. The principles are aimed at achieving a globally consistent approach to oversight that helps enhance price transparency and prevent market manipulation in the commodity derivatives market.

The majority of respondents to IOSCO´s 2014 update were broadly compliant with the principles. Where commodity derivatives markets exist, and market authorities were yet to be fully compliant, many of those market authorities had identified initiatives aimed at achieving full compliance over time. The results of the 2014 survey indicated that a number of the initiatives to fully implement the principles remain under development and/or in various stages of implementation. Consequently, the report stated that a more definitive analysis of those initiatives will be provided in the future. C7 will continue to monitor the implementation of those initiatives throughout 2015 in order to determine the appropriate time to initiate further review.

The Impact of Storage Infrastructures on Derivatives Market Pricing

In August 2014, C7 circulated a questionnaire among members and other relevant entities— storage and market infrastructure providers, market participants and end users—aimed at gathering information on the role of storage infrastructure in maintaining the integrity of the price formation process of physically delivered commodities on regulated derivatives markets.

Based on the survey results, C7 expects to publish a report in 2015 identifying changes in market practice and structure that may pose new regulatory risks and challenges.

Committee on Retail Investors C8

Committee Chair:
Howard Wetston (Ontario OSC)
Committee Vice Chair:
Leonardo P. Gomes Pereira (Brazil CVM)

Established in June 2013, the Committee on Retail Investors (C8) has a primary mandate to conduct IOSCO's policy work on retail investor education and financial literacy; its secondary mandate is to advise the IOSCO Board on emerging retail investor protection matters and to conduct investor protection policy work as directed by the Board. C8 seeks to bring investors' perspective and cognitive capabilities to the Board's attention to ensure they are taken into account.

Developing a strategic framework

In November 2014, C8 published a final *Strategic Framework for Investor Education and Financial Literacy* designed to guide IOSCO's investor education and financial literacy efforts. The framework describes IOSCO´s role in investor education and financial literacy, the role of research, particularly in the field of behavioral economics, and C8´s initial focus and strategic approach to fulfilling its primary mandate. To help IOSCO members develop and enhance their own investor education and financial literacy programs, the framework describes the practices currently used by C8 members in those areas.

New work streams

In May 2014, C8 members agreed to pursue two new work streams under its primary mandate on investor education and financial literacy:

- anti-fraud messaging; and
- investment risk education.

Small working groups were created to conduct surveys for each project and to gather research articles relating to both topics.

Joint Policy Committee Work: Cyber resilience and risk:

Increasingly, cyber risks constitute a threat to the integrity, efficiency and soundness of financial markets worldwide. In response to this growing threat, the IOSCO Board agreed in February 2014 to investigate further how the organization could support its members and market participants in dealing with cyber risks, with a view to publishing a report highlighting some of the tools available to regulators for enhancing the cyber resilience of securities markets.

The Board decided that the Autorité des marchés financiers Quebec, with the assistance of China Securities Regulatory Commission and the Monetary Authority of Singapore, would coordinate the activities of the Affiliate Member Consultative Committee and the different IOSCO policy committees involved in the cyber risk work.

Task Forces

Board Level Task Force on Financial Benchmarks

Task Force Chair: **Martin Wheatley (UK FCA)**

The investigations in 2012 into attempted manipulation of benchmarks brought the issue of benchmark integrity into the regulatory spotlight. 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. The Task Force is chaired by Martin Wheatley of the UK Financial Conduct Authority.

The principles were published in July 2013 with the aim of creating an overarching framework of 19 principles for benchmarks used in financial markets, covering governance and accountability, as well as the quality and transparency of benchmark design and methodologies. The IOSCO principles were endorsed by the Financial Stability Board as the global standards in financial benchmarks.

The Implementation Review of the IOSCO Principles for Financial Benchmarks by Administrators of Libor, Euribor, and Tibor

Following a request from the FSB, IOSCO published in July 2014 the *Review of the Implementation of IOSCO's Principles for Financial Benchmarks by Administrators of Libor, Euribor, and Tibor,* as part of the FSB report on *Reforming Major Interest Rate Benchmarks*. To conduct this review, IOSCO first prepared an Assessment Methodology.

The report found that reforms, both completed and on-going, have raised the overall oversight, governance, transparency and accountability of the three administrators and their respective benchmarks. Further work is still needed on the benchmarks' methodology and design. The report also recommended that the Libor, Euribor, and Tibor administrators devote more attention to the management of conflicts of interests.

The Implementation Review of the IOSCO Principles by WM in respect of the WM/Reuters 4pm Closing Spot Rate (Major Interest Rate Benchmark)

In response to a request from the FSB, IOSCO conducted in 2014 a review of the implementation of

the IOSCO principles by WM in respect of the WM/Reuters 4pm Closing Spot Rate. The IOSCO Task Force on Financial Benchmarks and the IOSCO Assessment Committee developed an assessment methodology for the review based on the methodology used for the IBOR review. The report was published in September 2014 as part of the FSB's Report on FX Benchmarks, which presented recommendations to reform the major FX benchmarks.

The Implementation Review of Benchmarks Other Than IBORs and FX

In its 2013 report on the *Principles for Financial Benchmarks*, IOSCO stated its intention to review within an 18-month period the extent to which the principles have been implemented by administrators (other than IBORs and FX) by obtaining the input of stakeholders, market authorities and, as appropriate, administrators. Accordingly, the task force in 2014 reviewed the implementation of its benchmark principles by a sample of administrators of financial benchmarks across a range of geographical areas and asset classes. In February 2015, it published the *Review of the Implementation of IOSCO's Principles for Financial Benchmarks*, which set out its findings.

The review indicated that widespread efforts are being made to implement the principles by the majority of the administrators surveyed. The responses received from administrators also showed that the benchmarks industry is in a state of change as administrators continue to work towards compliance with the principles and benchmarks begin to transition to new methodologies and administrators.

Task Force on OTC Derivatives Regulation

Task Force co-Chairs:
Kevin Fine (Ontario OSC)
Brian Bussey (US SEC)
Warren Gorlick (US CFTC)
Tom Springbett (UK FCA)
Sujit Prasad (India SEBI)

In a March 2013 report to the IOSCO Board, the Task Force on OTC Derivatives highlighted the importance of determining whether the new rules on OTC derivatives achieve their attended effect and, if so, to disseminate the best practices.

As part of that work, the task force published in November 2014 the consultation report *Post-Trade Transparency in the Credit Default Swaps Market*, which

seeks to analyze the potential impact of mandatory post-trade transparency in the credit default swaps (CDS) market.

The report's analysis was based on a review of relevant literature; a survey of CDS market participants and other market observers; and an examination of publicly available transaction-level post-trade data about CDS transactions before and after the introduction of mandatory post-trade transparency in certain CDS markets in the United States.

The report´s preliminary conclusion was that the data does not suggest that the introduction of mandatory post-trade transparency had a substantial effect on market risk exposure or market activity for the CDS products in question. The task force reached an initial conclusion that greater post-trade transparency in the CDS market would be valuable to market participants and other market observers, and it encourages each of its members to take steps to enhance post-trade transparency in the CDS market in its jurisdiction.

The final report is scheduled to be published in the third quarter of 2015, after the task force reviews the comments received during the consultation period and revises the report accordingly.

Task Force on Cross-Border Regulation

Task Force Chair:
Ashley Alder (Hong Kong SFC)
Task Force Vice Chair:
Anne Héritier Lachat (Swiss FINMA)

In November 2014, the Task Force on Cross-Border Regulation published the consultation report titled *IOSCO Task Force on Cross-Border Regulation,* which identifies and describes cross-border regulatory tools and challenges.

The consultation report described three cross-border regulatory tools that have been used, or are under consideration, by IOSCO members to help address the challenges they face in protecting investors, maintaining market quality and reducing systemic risk. These tools provide the basis for developing a cross-border regulatory toolkit and common terminology that describe potential options for IOSCO members to consult when considering cross-border regulations. They can be broadly classified into three main types: *National Treatment, Recognition, and Passporting*.

The report also includes a detailed discussion of the key challenges and experiences faced by regulators in implementing cross-border securities regulations. A key aim of this work is to help mitigate the possible adverse effects of regulatory inconsistencies on cross border activity in securities markets.

To prepare the consultation report, the task force conducted a survey among IOSCO members from late October 2013 to April 2014. The Task Force held meetings in Hong Kong, London and Washington D.C. with industry representatives, academics, and other key stakeholders to hear their views on the issues and challenges in complying with cross-border regulations. It also received stakeholder suggestions on how regulators could enhance cross-border coordination and on a potential role for IOSCO regarding these issues.

Working Group on Risk Mitigation Standards for Non-centrally Cleared Derivatives

Working Group Chair:
Lee Boon Ngiap (Singapore MAS)

In September 2013, the OTC Derivatives Regulators Group called upon IOSCO to develop a set of risk mitigation techniques, which would complement the margin requirements developed by the Basel Committee on Banking Supervision (BCBS) and IOSCO, to further reduce the risks in the non-centrally cleared derivatives market.

In September 2014, IOSCO released the consultation report on *Risk Mitigation Standards for Non-centrally Cleared OTC Derivatives*, which proposed nine standards aimed at strengthening the non-centrally cleared OTC derivatives market. IOSCO had developed these proposed standards in consultation with the BCBS and the Committee on Payments and Market Infrastructures. The proposed standards encourage the adoption of sound risk mitigation techniques to promote legal certainty over the terms of the non-centrally cleared OTC derivatives transactions, to foster effective management of counterparty credit risk and to facilitate timely resolution of disputes. The final report was published in January 2015, after taking into consideration the comments received from the public consultation.

Task Force on Long-Term Financing

Task Force co-Chairs:
Howard Wetston (Ontario OSC)
Ranjit Ajit Singh (Malaysia SC)

In recognition of the important role capital markets play in supporting long-term financing in emerging and developed economies, the IOSCO Task Force on Long-Term Financing published a research note in September 2014 on *Market-Based Long-Term Financing Solutions for SMEs and Infrastructure*. The task force was co-chaired by Howard Wetston and Ranjit Ajit Singh, Vice Chairs of the IOSCO Board.

The research note was prepared for the G20 Finance Ministers and Central Bank Governors. It describes innovative structures and products in equity capital markets, debt capital markets, securitization and pooled investment vehicles that provide practical solutions to broadly recognized challenges for financing of SMEs and infrastructure projects.

The note also provides key takeaways from each example and identifies themes common to the innovations. The market-based financing solutions described in the note cover many jurisdictions across a wide geographical area; several case studies refer to cross-border activities and/or have regional reach.

Following the finalization of the report, the IOSCO Board dismantled the LTF Task Force at the Board meeting in Seoul in February 2015.

Audit Quality Task Force

Task Force Chair:
Gerben J. Everts (Netherlands AFM)

In February 2014 IOSCO established the Audit Quality Working Group (AQWG) to help identify possible areas where the organization could work to promote audit quality. Improving the quality of international auditing is key to promoting consistent high quality financial reporting. Audit and securities regulators across the globe have pointed out that audit quality is not consistently delivered, and that deficiencies in audit performance are often frequent. Poor inspection findings made it apparent that incremental investments and reforms were required.

In November 2014 the IOSCO Board approved the recommendations in the AQWG report and decided to set up an Audit Quality Task Force (AQTF), with a one-year mandate to oversee and execute the recommendations in the AQWG report. These included:

- ensuring that cooperation with other stakeholders (strategic partners) such as the International Forum of Independent Audit Regulators (IFIAR) progresses on a more permanent and institutionalized basis.
- assessing whether and how to strengthen the role of audit committees. The first step would entail step, launching a survey on the role of Audit Committees vis-à-vis audit quality and how this role has evolved in jurisdictions over time. The survey results will then be used by IOSCO and its members to take stock and consider whether and how Audit Committees can play a part in the efforts to improve audit quality;
- promoting more robust audit-related standard setting governance