

IOSCO Research

The Research Function of IOSCO was set up in 2010 under the new strategic direction 2010-2015 to assist IOSCO in its efforts to identify, monitor and manage systemic risks. Securities markets are characterized by rapid change and financial innovation; securities regulators in their jurisdictions, and IOSCO at a global level, need to keep abreast of new products, business models, activities, participants and the potential systemic risks. Research helps IOSCO focus its strategic policy agenda and provides data for policy work.

The Research Function consists of a Committee on Emerging Risks (CER), chaired by Theodor Kockelkoren, and a small Research Department at the General Secretariat, headed by Werner Bijkerk. In October 2014, Mr. Kockelkoren, a member of the Executive Board of the Netherlands Authority for the Financial Markets (AFM), succeeded Carlos Tavares of Portugal as Chair of the CER.

The identification of global risks

The *IOSCO Securities Market Risk Outlook 2014-15* was published in October 2014. The Outlook, written by the Research Department with contributions from the CER, is based on a number of inputs, including data collection and analysis, construction of quantitative systemic risk indicators, extensive market intelligence, interviews with experts in major financial centers, risk roundtables with prominent members of industry and regulators, a survey of leading experts on emerging risk, analysis from academia and the regulatory community, input from IOSCO policy committees, and risk reports and presentations by experts. The Outlook synthesizes these inputs and adopts a global and forward-looking approach to understanding risks that could become systemic. It also highlights some notable trends and potential vulnerabilities.

The main risks highlighted in the Outlook are associated with (1) the low interest rate environment and the search for yield; (2) the search for yield and risks associated with a reversal of capital flows to Emerging Markets; (3) the risks of central clearing; (4) the increased use of collateral and risk transfer; and (5) governance and the culture of financial firms.

The Outlook also highlighted trends and potential vulnerabilities. Among them are: (1) the growing importance of securities markets; (2) the growing impact of macro-economic policy on securities markets;

(3) increasing asset price valuation; (4) increasing vulnerabilities in real estate markets and real estate investment trusts; (5) capital flows to emerging markets that are affecting securities prices; and (6) growing derivatives markets and clearing.

For future work on risk identification and iterations of the Risk Outlook, the IOSCO Research Function has decided to expand its focus beyond systemic risk to include the risks facing two other IOSCO objectives: investor protection and fair, efficient and transparent markets. The department will draw up annually a long list of risks based on the views of experts from IOSCO and its global network. The Research Function will focus its analysis on a small selection of risks from this list that are considered most relevant to IOSCO.

In-depth studies on pressing global issues

The Research Department also publishes in-depth exploratory analyses in the form of *Staff Working Papers*. Papers published in 2014 were:

- > The risks and benefits of *crowd-funding*;
- > A global perspective on *Corporate Bond Markets*, including potential systemic risks and the role in market-based and long-term financing.
- > A *Survey of Securities Markets Risk Trends* showing the changing perception of risks over the last three years.

Several of the reports were used by IOSCO policy committees as a basis for their global standard setting process and other policy work. The *crowd-funding* report was also discussed in the Financial Stability Board's Innovation Network.

Data collection

IOSCO's data collection is available to members and the public on the research and statistics portal of the IOSCO website, and is steadily improving. Due to the growing need for basic global information and data on securities markets, and the scarce resources of the Research Department, the statistics website will steadily expand in the future. The Affiliate Members Consultative Committee (AMCC) and the International Investment Funds Association (IIFA) provide important data on investment funds, helping fill a data gap in this segment of the securities market. The AMCC, IIFA and the Research Department are working in 2015 to amplify and refine the investment data. Further data collection was started in collaboration with the Africa Middle East Regional Committee (AMERC). Finally, the CER plans to start gathering data in 2015. Both exercises will lead to further expansion of the statistical website.

Outreach, debate and capacity building

The Research Department contributed to the risk roundtables at the IOSCO Board meetings during which experts exchanged views with members on a specific issue. Issues debated in 2014 were risks to emerging markets, the importance of corporate governance in financial institutions, and the impact of technical innovation – or digital disruption— on financial markets and services.

A methodology of assessment of systemic risks

The CER published a paper describing various risk identification methodologies used by securities regulators and the systemic risk methodology developed by the IOSCO Research Department. It shows the progress made by securities regulators in addressing risks in the wake of the global financial crisis. Securities regulators are increasingly combining quantitative and qualitative tools to identify, monitor and analyze the potential risks posed by products, firms, markets, behavior and incentives.

Participation in other fora for identifying global systemic risk

In its capacity as global standard setter of securities market regulation, IOSCO supports the global risk identification and mitigation efforts by the G20, the Financial Stability Board (FSB), the International Monetary Fund (IMF), the Committee on Payments and Market Infrastructures (CPMI) and other organizations that are tackling similar issues, such as the European Systemic Risk Board (ESRB) and the European Central Bank (ECB). To that end, the Chair of the CER and the staff of the Research Department engage these institutions, providing input and making presentations about potential systemic risks in securities markets. Ultimately, efforts to identify, monitor and mitigate risks throughout the financial system should help promote financial stability by curbing excessive risk taking, improving investor protection and facilitating capital formation.

