



Report from the IOSCO Secretary General

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> IOSCO Secretary General

When the financial historians and academicians re-write history in the years to come, I wonder whether they will label 2014 as the year it became clear to all and sundry that the structure of the global financial system was changing irrevocably. As the new global capital and resolution rules begin to come into force, along with tougher bank liquidity requirements and leverage constraints, so has the realization dawned that market based financing -securities markets in all their different forms- is destined to play a much bigger role in the future financing of the global economy.

This trend should be a welcome one. Academic evidence suggests that those economies with a plethora of financing instruments in addition to traditional bank credit, and with deep, liquid capital markets, including a full range of financing options for SMEs, tend to outperform those economies without them. If this paradigm is indeed correct, IOSCO's global standard setting role is destined to become much more important in the future. We are already seeing evidence of this trend around the world with many new initiatives, regional and local, to make capital markets work better in the future.

As IOSCO Board Chair Greg Medcraft rightly points out, it is essential for IOSCO and our securities regulators to remain highly influential and pro-active in the G20/Financial Stability Board and other global fora. We must ensure that global capital markets can intermediate the capital of savers and investors efficiently, while distributing (not necessarily eliminating) risk on the basis of sensible, well-calibrated standards with the necessary levels of consumer protection that enhance financial stability. Securities regulators are still under-represented at the FSB. This can result in excessive risk aversion in global policy conception and needs to be addressed.

Greg has urged IOSCO to think forward - in short, to shape the future and not be shaped by it. Where we have done this, we have set the global regulatory agenda and we have defined its regulatory parameters. Some examples of this include our

excellent work on benchmarking led by the UK FCA and US CFTC Chairs; our report identifying the elements of credible deterrence in the enforcement of securities regulation, which is so important given that the world's regulators have to date levied \$170 billion of fines on financial institutions with little discernible improvement in industry behavior; our joint work with the Committee on Payments and Market Infrastructures (CPMI) on matters relating to CCPs; our initiatives with the Basel Committee on Banking Supervision (BCBS) to revive good quality securitization based on simple, transparent and comparable securitization structures; our first class, innovative paper on SME and infrastructure financing for the G20 Summit in Cairns; our joint work with the BCBS on margin requirements for non-cleared OTC derivatives; our frontier thinking on the growing threats of cybercrime and the implications of the digital disruption that is beginning to affect the global financial industry; our new work on improving audit quality; and our legally complex and challenging work on the cross-border regulatory issues led by Ashley Alder, Chief Executive Officer of Hong Kong SFC.

In addition we have improved our analysis of securities markets risk in the *Securities Markets Risk Outlook*, while encouraging the Growth and Emerging Markets (GEM) Committee, the Affiliate Members Consultative Committee (AMCC) and our regional committees to increase their knowledge of emerging risks and to contribute to our global assessment. We are getting better at this but we need to improve even more

as the profile of major risks in financial markets continues changing so rapidly. IOSCO still has much to do to improve its gathering of basic data on securities markets that should be made available to all the membership and to deepen our understanding of market interconnectivity.

Three other significant developments in IOSCO need mentioning. First is the growing significance of our implementation work, ably led by Steven Bardy of the Australian Securities and Investments Commission. Second is the continuing success of the IOSCO Multilateral MOU on consultation, cooperation and information exchange - now with 105 signatories and with the prospect of further enhancement of global cooperation on enforcement. The MMOU is a classic example of a successful, practical, cooperative, regulatory instrument that works because its embedded incentives are truly aligned. Third, I am pleased to report, is that IOSCO's finances continue to be on a much sounder footing, though IOSCO needs more resources in the future to address the expectations of its members and other stakeholders.

As I enter my final year as IOSCO Secretary General, there is a growing optimism that we are at last making progress on our capacity building efforts. During my tenure, I have always regarded these efforts, with the strong encouragement from GEM Committee Chair Ranjit Ajit Singh, as one of the essential pillars of IOSCO. Nominated Board members generously agreed to pay an additional one-off fee in 2015 to help us develop an on-line training tool-kit now underway. This IT tool will be available to all IOSCO members and should provide the foundations and the basics for any securities regulator in any part of the world. This will also help us and our members to offer further education and training programs at zero marginal cost. IOSCO should aspire for this to be a learning tool of world class quality, inter alia drawing on best practice and case studies from our members. Second, the IOSCO Board has agreed to develop pilot Regional hubs and we should aim to get the first projects underway at the beginning of 2016. Third, we are launching the IOSCO Secondment Program - a welcome and necessary clearing house mechanism to match the supply and demand of our members who wish work experience in other IOSCO member bodies. Fourth, we are deepening our own popular education and training programs and, fifth, developing an IOSCO Certificate Program. Over time this latter program can build on the IT tool kit and link to our practical training sessions. We have been encouraged by the interest of some leading universities around the world to participate in and host part of this initiative.

All of us at IOSCO should work increasingly together with the longer term vision of a world of growing interconnected capital markets - including some large, new emerging ones - linked together on the basis of common standards. We need to plan for and encourage this. And we need to strengthen our decision making so as to maximize the spread of economic prosperity and security.

Many IOSCO members aspire to greater capital market integration in their countries and regions - a development I believe IOSCO should encourage by every means possible. Successful national and regional integration projects will widen choice and competition, deepen pools of capital and match the needs of many more savers and investors. Done well and efficiently, this integration can only be a good thing. All that is needed to start is a blank piece of paper and a pencil and to respond to the following questions: Question one: - what are our collective interests? Question two - how ambitious should we be?

IOSCO is not at a *turning point* but rather at a *growing point*. Our 2020 exercise will set the medium term strategic and financing framework for the organization. I would like to thank all those who have worked hard on this important exercise which we hope to conclude at IOSCO's Annual Conference in London in June 2015.



I am extremely fortunate to have a dedicated and very hard working staff of 30 professionals from, I am happy to say, 21 different nationalities. I thank them all. And I cannot speak highly enough of my outstanding deputy, Tajinder Singh.

As Greg has written, in order to function IOSCO relies on the contributions of many overworked members and I fully support the gratitude he has expressed to all of them in his contribution.

Our current Management Team is composed of three very dedicated and talented people - Greg Medcraft (Chair), Howard Wetston of Ontario OSC and Ranjit Ajit Singh of Malaysia SC (Vice Chairs). We owe a debt of gratitude to our outstanding Regional Committee Chairs- Ashley Alder of Hong Kong SFC, Jean Paul Servais of Belgium FSMA, Mounir Gwarzo of Nigeria SEC and Jaime Gonzalez of Mexico CNBV. The AMCC has made excellent progress under the leadership of Jose Carlos Doherty, the Chief Executive Officer of the Brazilian Association of Financial and Capital Markets Institutions. Let me close by saying I am deeply grateful for all their support and salute their impressive contributions to the work of IOSCO.