



## Report from the IOSCO Secretary General

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> IOSCO Secretary General

The IOSCO Board agreed in October 2016 to concentrate its policy initiatives on five focus areas as the first step in a new priority-setting process. The objective of this exercise was to align the work of IOSCO policy committees with Board-approved priorities, thereby enhancing the effectiveness of the organization and its impact on the regulation of securities markets.

I am happy to report that in 2018 the priority-setting process proved its worth: IOSCO advanced its efforts to address emerging risks, market vulnerabilities and other market developments that could undermine investor protection, market integrity and efforts to mitigate systemic risk -- the organization's three core objectives.

By clearly articulating IOSCO's policy goals, the new priority-setting process facilitates greater collaboration among the organization's various committees. It also laid the groundwork for IOSCO to publish its first public work program in 2019, thereby bringing greater transparency to our work to the benefit of both members and stakeholders. As part of this new process, in October 2018, the IOSCO Board agreed on five policy priorities, based on the risks and trends identified in the IOSCO Risk Outlook, which draws on input from IOSCO members and policy committees. These priorities are crypto assets, market fragmentation, artificial intelligence and machine learning, passive investing and index providers and retail distribution and digitalization.

Each of these priorities corresponds to one or more of the following five broad focus areas approved by the Board in 2016 to guide IOSCO's work:

1. Strengthening the structural resilience of capital markets;
2. Addressing data gaps and information sharing issues;
3. Applying new insights into investor protection and investor education;

4. Analyzing the role of securities markets in capital-raising and sustainability issues, and the related role of securities regulation;
5. Examining the role of regulation in financial technology and automation.

A positive consequence of the Board's priority setting was the substantial increase during 2018 in cross-sector work among its eight policy committees on matters such as the offer and sale of retail OTC leveraged products, initial coin offerings and cryptocurrencies, cyber resilience and outsourcing and third-party suppliers. The cross-committee collaboration provides IOSCO and its members with a broad perspective of the risks and challenges that regulators, investors and other stakeholders face in today's increasingly complex market environment. No longer can we address issues in silos, given the interconnectedness of virtually all aspects of modern markets.

A second positive consequence of the Board's approach is the increasing contribution to IOSCO work of the Affiliate Members Consultative Committee (AMCC) and the Growth and Emerging Markets Committee (GEMC). For example, throughout the year, the AMCC contributed crucial data to

various workstreams and brought an industry perspective to IOSCO policy work. The GEMC also offered valuable input in areas such as sustainable finance, emerging risks and cyber resilience.

Similarly, IOSCO relies on its four regional committees to broaden the scope and reach of its work. Regional committees have been particularly adept at addressing cross-border issues that arise from the growing integration of global markets. IOSCO's Asia-Pacific Regional Committee (APRC), for example, has led the way by engaging in recent years with authorities in the European Union and the United States on the cross-border implications of regulatory reforms in these jurisdictions for the Asia Pacific region.

IOSCO's effectiveness as a standard setter lies ultimately in the ability of its members to implement the *Objectives and Principles of Securities Regulation* (IOSCO Principles) and other IOSCO standards. IOSCO's Assessment Committee assesses and encourages full, effective and consistent implementation of principles and standards across the IOSCO membership, thereby supporting IOSCO's efforts to fulfill its three core objectives and helping reduce regulatory arbitrage and the cost of conducting cross-border business. During

2018, for example, the Assessment Committee undertook key reviews of the 2013 Suitability Requirements with respect to the Distribution of Complex Financial Products and of the IOSCO Secondary and Other Market Principles. The review of the suitability requirements is aimed at enhancing investor protection and will be completed in 2019; the review of secondary and other market principles indicated that implementation was generally high across the 40 member jurisdictions reviewed. These principles form part of IOSCO's 38 Objectives and Principles of Securities Regulation, which provide the core elements of a robust regulatory framework.

IOSCO last year also undertook important work in collaboration with the Financial Stability Board (FSB) and other standard setters on the impact of post-crisis reforms on incentives to centrally clear standardized OTC derivatives. Our analysis indicated that, in general, the reforms do in fact promote central clearing – a mainstay of the G20 commitment to reform the OTC derivatives markets. However, we also noted that in some instances, there may be less incentives to use central clearing and, in some cases, regulatory reform may not incentivize central clearing. These findings have informed additional policy work by IOSCO and the Committee on Payments and Market Infrastructures (CPMI).



## 2018 - Focus Areas and Priority Work:

While the full update on our work can be found in the chapter on *Policy Committees and Task Forces*, I wanted to briefly describe some of the key highlights of each IOSCO focus area in 2018, as they clearly underscore IOSCO's commitment to achieve its core objectives and keep pace with emerging trends in global securities markets.

### 1. Strengthening the structural resilience of capital markets

In 2018, IOSCO examined issues related to asset management, cyber resilience and the regulation and supervision of derivatives markets, as part of its ongoing work to address market vulnerabilities and safeguard investors and securities markets against future crises. We published a set of recommendations to improve regulatory reporting and transparency in secondary corporate bond markets and another set to help trading venues manage extreme volatility. Both projects aimed to address factors that can undermine the integrity of securities markets and harm investor confidence. Similarly, we issued recommendations to entities responsible for collective investment schemes to ensure their liquidity management practices protect investor interests, particularly in stressed market conditions.

The Monitoring Group (MG), which IOSCO chairs, is comprised of six other international organizations that collaborate to promote high-quality international auditing and assurance standards. In 2017-2018, the MG conducted a public consultation on a proposed reform of the international audit standard-setting process that sets out various options to enhance the governance, accountability, oversight and independence of the international audit standard-setting process. The consultation paper drew responses from over 180 stakeholders.

### 2. Addressing data gaps and information sharing issues

The European Union General Data Protection Regulation that took effect in May 2018 presented significant challenges for IOSCO, which depends on information sharing and cross-border cooperation among its members to combat cross-border fraud and misconduct. IOSCO engaged with European Union authorities to ensure that information sharing under the new EU data privacy rules between European Economic Area (EEA) and non-EEA authorities would remain effective.

Specifically, IOSCO's Board-level Subgroup on Data Protection negotiated an Administrative Arrangement with the European Protection Data Board that now enables

IOSCO members to continue sharing information under the IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information.

### 3. Applying new insights into investor protection and investor education

Protecting investors is a core objective for IOSCO. In May 2018, we issued a report in conjunction with the Organisation for Economic Co operation and Development (OECD) that examines how authorities can break down behavioral biases to rational decision making on the part of investors and nudge consumers to improve their financial planning. IOSCO also published a report that examines the growing vulnerability of aging investors to financial fraud and other risks and identifies sound practices to protect them from financial abuse.

### 4. Analyzing the role of securities markets in capital-raising and sustainability issues, and the related role of securities regulation

In October 2018, the Board launched an information sharing network to gain insight into the issues around sustainability, including issuer disclosure. The GEMC explored the trends and challenges that shape the development of sustainable finance in emerging capital markets. The work culminated in 2019 in a set of recommendations to facilitate the development of sustainable finance as a driver of economic growth in emerging market jurisdictions.

### 5. Examining the role of regulation in financial technology and automation

During the year, the Board launched a Fintech Network to enable the exchange of information, knowledge and experiences related to fintech issues among IOSCO members. The network agreed to focus on distributed ledger technology; the ethics of artificial intelligence and machine learning; regtech and suptech; and the lessons learned from innovation. It aims to produce a series of timely issues papers to inform members of key developments in this fast-moving area and the implications for regulation and supervision.

Going forward, the IOSCO Board will continue to work closely with its members, the General Secretariat and its various committees to establish work priorities that are both timely and effective. Doing so reaffirms IOSCO's commitment to keep pace with the latest capital market developments so as to protect investors, ensure market integrity and mitigate systemic risk.

