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THE MIDDLE ROAD



GLOBAL PERSPECTIVE ON ISSUES AND TRENDS IN REGULATORY FINANCIAL REFORM FOR THE SECURITIES MARKET

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Views expressed are personal and do not necessarily reflect
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IOSCO- A BRIEF INTRODUCTION

- IOSCO is recognized as the International Standard setter for Securities Regulation
- 100 + jurisdictions, more than 95% of world capital markets
- IOSCO Principles are one of the 12 key standards and codes recognised by FSB as key to sound financial systems
- IOSCO MOU recognized as a benchmark for international cooperation and enforcement



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IOSCO OBJECTIVES AND PRINCIPLES OF SECURITIES REGULATION

- Accepted as the international standard for securities regulation
- Core Objectives
 - Protecting investors
 - Fair, efficient and transparent markets
 - Reducing systemic risk
- 38 Principles now – added 8 Principles in June 2010



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IOSCO PRINCIPLES

- Cover areas relating to:
 - Regulators
 - Self regulation
 - Enforcement and Cooperation
 - Issuers and Information service providers
 - Collective Investment Schemes
 - Market Intermediaries
 - Secondary Markets
- Assessment of jurisdictions against Principles- use of Methodology



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IOSCO MMOU

- Multilateral arrangement for Cooperation and Exchange of Enforcement
- Recognised as the benchmark for international cooperation on enforcement
 - Elaborate screening process to verify eligibility
 - Almost all of IOSCO's member regulators either already meet the requirement or have committed to legislative changes to meet it
 - Mechanism of choice- use has doubled in last 3 years



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GLOBAL FINANCIAL CRISIS

- Excessive optimism about asset prices and risk
- Macroeconomic imbalances
- Growth of leverage
- Loosening underwriting standards
- Conflicts of interest, misaligned incentives
- Regulatory arbitrage
- Belief in self-regulating markets misplaced
- Interconnectedness of world markets
 - *Financial stability not necessarily maintained through monitoring individual institutions*



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GLOBAL RESPONSES

- Global institutions created and others strengthened: G20, FSB, IMF
- Bail outs
- Increased capital requirements, Basel 3
- Risk management, resolution regimes, SIFIs
- Emphasis on cooperation between regulators
- Reducing mechanistic reliance on CRA Ratings
- Market infrastructure- CCPs, TRs, OTC Derivatives
- Accounting standards- convergence



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GLOBAL RESPONSES (contd)

Few Key themes that have consistently surfaced, notably in G20 declarations:

- The need for attention to be given to implementation of global standards;
- The need for regulators to look for emerging systemic risks and take actions to mitigate them; and
- The need for improved communication and cooperation globally between regulators.



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NEW IOSCO PRINCIPLES

- 8 NEW CORE PRINCIPLES:
 - Relating to Regulator: Systemic Risk, Perimeter of Regulation, Conflicts of Interest
 - Hedge Funds
 - CRAs
 - Auditor Oversight, auditor independence
 - Other information service providers
- *New Principles on Systemic Risk - a major paradigm shift for Market Regulation*



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IOSCO's RESPONSE TO THE CRISIS

- Revision of IOSCO Principles and Methodology
- Crisis-related work- recommendations on:
 - Securitization, Credit Default Swaps
 - Hedge Funds
 - Shortselling
 - CRAs
 - Supervisory Cooperation
 - Disclosure principles for ABS
 - Transparency of Structured Finance Products...



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IOSCO's RECENT WORK

- Report on Trading of OTC Derivatives
- CPSS-IOSCO Principles on Financial Market Infrastructures
- Report on Direct Electronic Access
- Securitization in emerging markets
- Market Interventions in emerging markets
- Implementation survey on Securitization recommendations and Regulatory implementation of IOSCO CRA Principles



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IOSCO's RECENT WORK (contd)

- Revision of IOSCO Principles and Methodology
- Point of Sale Disclosure
- Study on insolvency regimes
- Regulatory Reform in different jurisdictions and implications for IOSCO
- Discussion Paper on Role of Securities Regulators with regard to Systemic Risk

Reports available at www.iosco.org/library



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IOSCO's ONGOING WORK

- Systemic risk and securities regulators
- OTC Derivatives, Trade Repositories
- Dark pools
- HFT – G20 mandate
- Commodity derivatives, oil markets – G20 mandate
- Ongoing Principles for ABS
- Hedge Funds survey...
- Suspension of redemptions
- ETFs...



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IOSCO's ONGOING WORK (contd)

- investor suitability
 - Development of bond markets in emerging economies
 - CRA: internal controls for quality and integrity of ratings process; conflicts of interest
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- Contribution to G20/ FSB



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IOSCO CONTRIBUTION TO G20

- Toronto summit (June 2010):
 - acknowledged significant work of the IOSCO to facilitate exchange of information amongs regulators and supervisors, as well as
 - IOSCO's Principles regarding the oversight of hedge funds aimed at addressing related regulatory and systemic risks



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IOSCO CONTRIBUTION TO G20 (contd)

- Seoul summit (November 2010):
 - Called on IOSCO's TFCFM to report regarding regulation and supervision of commodity derivative markets
 - Called on IOSCO to develop recommendations to promote markets' integrity and efficiency
 - Called on IOSCO and IEF, IEA, OPEC to produce a joint report on oil market transparency and functioning
 - Will contribute to "shadow banking" work and stands ready to contribute to work on consumer finance protection
- Welcomed CPSS-IOSCO work on CCP standards
- IOSCO is one of the co-chairs of FSB OTC Derivatives WG and contributed to FSB Principles on reducing reliance- both reports endorsed by G20



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IOSCO DISCUSSION PAPER ON ROLE OF SECURITIES REGULATORS WITH REGARD TO SYSTEMIC RISK

Background:

1. IOSCO Strategic Direction: New Mission and Goals: include identifying, monitoring and mitigating systemic risk
2. New Principles
3. Aim is to discover the scope and the methodologies that securities regulators can use in this new task
4. Developing a Research Function

Discussion paper available at:

<http://www.iosco.org/library/statements/pdf/statements-15.pdf>



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KEY POINTS OF THE PAPER

- Disclosure and transparency are critical to identifying the development of systemic risk and to arming regulators with the information needed to take action to address it
- Robust regulatory supervision of business conduct is essential to managing conflicts of interest and the build-up of undesirable incentive structures within the financial system.



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KEY POINTS (Contd)

- Financial innovation and its implications for financial stability should be a focus for securities regulators:
 - Innovation should be encouraged and facilitated where it has the potential to improve the efficiency of the markets or to bring useful products and new participants to the market
 - Innovation which involves opacity or improper risk management should be carefully monitored



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KEY POINTS (Contd)

- Given the central role of markets in the overall financial system and their capability to generate and/or transmit risks, securities regulators should work with other supervisors to improve the overall understanding of the economics of the securities markets, their vulnerabilities and the interconnections with the broader financial sector and the real economy



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KEY POINTS OF THE PAPER

- It is important for securities regulators to develop key risk measurements relevant to systemic risk arising within securities markets, and improve their understanding and application of tangible steps to mitigate identified systemic risk.



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THANK YOU