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Sydney, 1 April 2013

IOSCO to progress reform agenda under new leadership

Mr. Greg Medcraft, chair of the Australian Securities and Investments Commission, took over as chair of the International Organization of Securities Commissions (IOSCO) Board at its meeting in Sydney on 21- 22 March. He succeeds Mr. Masamichi Kono of the Japan FSA. The Board also elected Ontario Securities Commission chairman Mr. Howard I. Wetston as IOSCO vice chair following the retirement of Mr. Ethiopis Tafara.

"I am delighted to be appointed chair of IOSCO and I salute and thank Masa Kono for his leadership of IOSCO," Mr. Medcraft said. "Under my stewardship, I want to build on Mr. Kono's work and ensure IOSCO is proactive and forward-looking in delivering three objectives – working to ensure that globally investors are confident and informed, markets are fair and efficient and reducing systemic risk."

Mr. Medcraft said that during his term as chair IOSCO would work toward these objectives through:

- Engagement with members and stakeholders;
- Co-operation across its membership and with industry; and
- Standard-setting.

Mr. Wetston said: "I am looking forward to working with Greg Medcraft to advance IOSCO's standard-setting agenda, including new mandates on investor protection and education, cross-border regulation and deterrence. I would also like to take this opportunity to thank Masamichi Kono for his leadership and contributions to IOSCO."

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Mr. Kono said: “I would like to express my gratitude to everyone at IOSCO for their kind support during my tenure as chair. Our collective strength has enabled IOSCO to make important headway on international regulatory reform and elevated the visibility and relevance of IOSCO with global stakeholders. I am confident that further progress will be made under the most capable leadership of my successor.”

The Sydney IOSCO Board meeting covered the following areas:

Engagement

The Board meeting underscored IOSCO’s commitment to improving engagement with industry and the broader IOSCO membership.

Industry Round Table on Emerging Risks

The meeting was preceded by a Round Table attended by the Board and seven financial services executives from Australia, Asia, Europe and North America to discuss emerging risks. The discussions underscored IOSCO’s determination to engage with industry in developing early and forward-looking responses to the challenges that securities markets face in a rapidly evolving environment.

Participants exchanged views on emerging risks in global financial markets and the possible unintended consequences of securities regulation and other policy measures, particularly on emerging markets. Some of the potential risks discussed included the global imbalances caused by capital flows, weaknesses in financial market infrastructure, high-frequency trading, market fragmentation, and cyber-attacks.

Board members expressed concern over the potential risks of the current low interest rate environment. Members generally agreed the search for yield could fuel the creation of new asset bubbles, particularly

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in emerging markets with largely undiversified economies. They noted that a sudden upward spike in interest rates could damage global economic growth.

The Emerging Markets Committee

The Board discussed measures to enhance the inclusiveness of EMC members in IOSCO policy and implementation work. The EMC accounts for 75% of IOSCO membership, which gives it significant responsibility for the development and implementation of IOSCO standards on a global level. Board members agreed that the emerging markets would play an increasingly important role as a source of financing for the global economy.

Board membership and working procedures

The meeting had preliminary discussions on changes to the composition of the IOSCO Board and its working procedures. The aim of these changes is to ensure the Board is as inclusive and representative as possible of the IOSCO membership. The Board was established in May 2012 through the merger of the Executive Committee, the Technical Committee and the Emerging Market Committee Advisory Board. The aim is to have in place a permanent basis for determining Board membership by the time of the Annual meeting in Rio de Janeiro in September 2014.

New IOSCO members

The Board approved and welcomed the following institutions as affiliate members of IOSCO:

- Union of Arab Securities Authorities (UASA)
- Johannesburg Stock Exchange (JSE)
- Nigeria Stock Exchange (NSE)
- The International Swaps and Derivatives Association (ISDA)

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Co-operation

IOSCO's ongoing commitment to enhancing constructive co-operation across its members was reflected in a number of new initiatives agreed at the meeting.

Establishing the IOSCO Foundation

The Board discussed the governance framework for the Foundation and discussed where it should be located. Board members supported physically locating the Foundation in Madrid, as efforts continue to secure funding commitments.

A final decision on all aspects of the Foundation will be made and the next steps for formally filing the Foundation documents will be taken after completion of the pre-commitment phase and thorough examination of all legal issues.

New work streams

The meeting agreed to establish a task force on cross-border regulation and a new standing committee on investor education and protection, and agreed on the need for a project on deterrence frameworks.

- The Task Force on Cross Border Regulation will develop a tool box of measures in regulating securities markets activities that cross borders. If appropriate, it will then develop principles to guide the coordinated use of these tools. The tools to be considered may include substituted compliance, mutual recognition and supervisory co-operation. The Task Force's work is intended to help policy makers and member regulators in addressing the challenges they face in regulating cross-border activity.

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- The Committee on Investor Education and Protection will have a broad mandate to lead IOSCO's work on retail investor education and protection. Its aim will be to ensure IOSCO takes a consistent and comprehensive approach to retail investment products and services. By focusing on investor education it will enable IOSCO members to share their experiences and build expertise globally in financial literacy.
- The meeting considered (and foreshadowed approval of) a new mandate to develop principles for credible deterrence frameworks. The mandate calls for the IOSCO committee on enforcement to identify the core elements of a credible deterrence framework for securities regulation, including strategies and good practices. It responds to a public demand for tougher sanctions to deter market misconduct. The failure to punish wrongdoers during the current financial crisis has eroded public confidence in capital markets.

International Secondments Register

The Board agreed to the creation of an International Secondments Register to be maintained by the IOSCO Secretariat, which will assist members in organizing secondments with other IOSCO members.

Mr. Medcraft said: "Secondments are a key way of building understanding and co-operation between members. The Register will play a key role in making this happen."

Multilateral Memorandum of Understanding on the exchange of information

The Board considered additional measures to encourage non-signatory members to sign the IOSCO Multilateral Memorandum of Understanding on cooperation and exchange of information, the instrument used by securities regulators around the world to combat cross-border fraud and misconduct. It also reiterated IOSCO's commitment to provide technical assistance and political support to those non-signatories that require it in order to sign the MMoU.

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Earlier this month, the Reserve Bank of Malawi signed the MMoU, bringing to 94 the total number of IOSCO member signatories. Together these members regulate about 95% of the world's securities markets. However, 30 members have yet to become signatories. As long as these jurisdictions remain outside the international enforcement regime, they offer potential safe havens for wrong doers and create gaps in IOSCO's international enforcement network.

Standard-setting

The meeting progressed IOSCO's important standard setting work for securities markets. It also had preliminary discussions about how best to prioritize and rationalize IOSCO's work streams in an effort to focus on areas that deliver the maximum benefit to the organization and its members.

Financial Benchmarks

The Board discussed the draft principles on financial benchmarks developed by the Task Force on Financial Market Benchmarks. The principles include high level principles that are applicable to all benchmarks and additional principles that are applied under specific circumstances. The Board agreed to issue a second consultation paper focusing primarily on the additional, more detailed principles. The consultation paper is expected to be released for a four-week comment period during April. The final report is expected to be published in June.

G20/FSB mandates to repair the financial system

The Board discussed progress in reform work mandated by the G20 Leaders and coordinated by the Financial Stability Board. The meeting heard updates on OTC derivatives reform initiatives and implementation issues, progress on joint IOSCO-BCBS (Basel Committee on Banking Supervision)

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work on Margin Requirements for non-centrally cleared derivatives, the need for further work on credit rating agencies and on credit default swaps.

On OTC Derivatives members stressed the importance of assessing the collective impact of the different measures regarding the regulation of OTC derivatives in an effort to strengthen the final outcome and avoid unintended consequences.

Board members also discussed progress on IOSCO's work in developing a methodology to identify non-bank systemically important financial institutions (non-bank SIFIs), covering market intermediaries, asset managers and hedge funds. The project forms part of a broader G20 mandate on global systemically important financial institutions (G-SIFIs) that encompasses work by the BCBS and the International Association of Insurance Supervisors (IAIS) on systemically important institutions in the banking and insurance sectors. Members emphasized the importance of looking at this issue from the perspective of not just institutions, but also markets, products and instruments. Entities in the securities space were considerably different and some of them, like many funds, had shock-absorbing features which reduced rather than exacerbated systemic risk.

Board members also discussed the application of the FSB Key Attributes of effective resolution regimes for financial institutions to entities in the securities space. Again, members emphasized the importance of aligning this work with the project on identification of non-bank SIFIs as some entities with shock absorbing features might not need to be resolved in the manner of other systemically important entities. Members also noted the progress being made by IOSCO and the Committee on Payment and Settlement Systems (CPSS) working together on recovery and resolution of Financial Market Infrastructures, including central counterparties.

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NOTES FOR EDITORS

1. IOSCO is the leading international policy forum for securities regulators and is recognized as the global standard setter for securities regulation. The organization's membership regulates more than 95% of the world's securities markets in more than 115 jurisdictions and it continues to expand.
2. The IOSCO board is the governing and standard-setting body of the International Organization of Securities Commissions (IOSCO), and is made up of 32 securities regulators. The members of the IOSCO board are the securities regulatory authorities of Argentina, Australia, Belgium, Brazil, Chile, China, France, Germany, Hong Kong, India, Italy, Japan, Korea, Malaysia, Mexico, Morocco, the Netherlands, Nigeria, Ontario, Pakistan, Portugal, Quebec, Romania, Singapore, South Africa, Spain, Switzerland, Trinidad and Tobago, Turkey, United Kingdom and the United States.
3. The Emerging Markets Committee is a specialized working group representing the world's emerging financial markets. It endeavors to promote the development and greater efficiency of emerging securities and futures markets by establishing principles and minimum standards, preparing training programs for the staff of members and facilitating exchange of information and transfer of technology and expertise.
4. IOSCO aims through its permanent structures:
 - to cooperate in developing, implementing and promoting adherence to internationally recognized and consistent standards of regulation, oversight and enforcement in order to protect investors, maintain fair, efficient and transparent markets, and seek to address systemic risks;

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- to enhance investor protection and promote investor confidence in the integrity of securities markets, through strengthened information exchange and cooperation in enforcement against misconduct and in supervision of markets and market intermediaries; and
- to exchange information at both global and regional levels on their respective experiences in order to assist the development of markets, strengthen market infrastructure and implement appropriate regulation.

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Carlta Vitzthum

Outside office hours

Email:

Website:

Follow IOSCO on [Twitter here](#).

+ 34 91 787 0419

+ 34 697 449 639

carlta@iosco.org

www.iosco.org