

MEMO

To: IOSCO Members
From: Jane Diplock, Chairman, Executive Committee Task Force on the IOSCO Strategic Direction
Subject: **IOSCO Strategic Direction – Goals and Priorities**
Date: 15 October 2009

At the last Presidents Committee meeting in June 2009 in Tel Aviv, I outlined to the Presidents Committee a proposal to review IOSCO's strategic direction, with a view to putting proposals to next year's Presidents Committee meeting. I also circulated as part of the Presidents Committee papers a document entitled "Task Force on the Review of the IOSCO Strategic Direction: Final Review Framework" which provides more detail on the process and content of this review.

This paper suggests a new statement of the high level role and mission for IOSCO and its key goals and priorities over the next five years, which is component 1 as outlined in the Final Review Framework. I would be grateful for any written comments that you might like to make on this paper, **if possible by 30 November 2009**. There will also be an opportunity to discuss this paper at forthcoming IOSCO meetings.

BACKGROUND

IOSCO's Mission

In order to envision IOSCO's future direction it is instructive to look back at IOSCO's development and performance over the last few years in terms of its focus and role.

IOSCO began life as an association for securities regulators in the Americas, which in 1983 agreed to accept members from around the world. It has now grown into a truly global organisation, with members from nearly all jurisdictions with functioning capital markets.

In the preamble to the by-laws of IOSCO, last reformed in 1995 to reflect organisational changes, the members of the organisation set out the basis for its existence and its mission aims.

IOSCO's mission aims are stated as being:

- To cooperate together to promote high standards of regulation in order to monitor just, efficient and sound markets;
- To exchange information on their respective experiences in order to promote the development of domestic markets;

- To unite their efforts to establish standards and an effective surveillance of international securities transactions; and
- To provide mutual assistance to promote the integrity of the *[sic]* markets by a rigorous application of the standards and by effective enforcement against offences.

Underlying these mission aims is the philosophy of the organisation. This is included in the preamble to the By-Laws and state that:

- (considering) that securities (capital) markets play a fundamental role in the raising of funds, the allocation of resources and the financing of enterprises and public entities;
- (considering) that securities markets allow the offer of a wide selection of financing instruments to enterprises and to public entities, and a wide choice of investment instruments to advisors;
- (recognizing) that domestic securities markets are increasingly being integrated into a global market;
- (wishing) that by this integration, the securities markets provide, at the international level, the benefits derived at the domestic level;
- (wishing) that development of securities markets at both the domestic and international levels to be guided by a constant concern for investor protection.

Based on these five statements of its philosophy and IOSCO's work we can summarise the underlying philosophy of the organisation as being:

- A well-regulated capital markets structure is fundamental to ensuring that markets operate in an orderly, efficient and fair manner;
- Regulation should support the twin aims of allowing free markets the flexibility they require to function properly while ensuring that investors are accorded adequate protection when operating in these markets; and
- Markets are global and this should be reflected in IOSCO's membership.

The philosophy in the IOSCO By-Laws, as summarised in the three key messages above, forms the basis for IOSCO's mission aims as published on the website.

Performance

This section provides a brief assessment of IOSCO's performance in meeting these mission aims through IOSCO's activities and goals, the implications for those mission aims and how these contribute to the perception of IOSCO's status.

To cooperate together to promote high standards of regulation in order to monitor just, efficient and sound markets;

IOSCO's members do cooperate and promote high standards as evidenced in the development of IOSCO's Objectives and Principles of Securities Regulation (the Principles) and its rigorous and detailed regulatory standards for key securities markets, which facilitate members' ability to monitor and ensure sound markets. That said, the recent financial crisis has highlighted the need for national and international regulatory bodies to place greater focus on the implementation of

standards, not just promotion of them. The G20 Leaders in particular have emphasized the importance not only of setting sound global standards, but also of taking steps to implement them. This also reflects a longer standing concern of some members of IOSCO that IOSCO could and should give more attention to implementation of its policy recommendations, in order to be more effective.

To exchange information on their respective experiences in order to promote the development of domestic markets;

This objective is met through the activities of IOSCO's Technical and Emerging Markets Committees, their associated working groups, standing committees and task forces as well as IOSCO's training seminars. There is also the bilateral interaction and assistance being provided between members whose contact is facilitated through their membership of IOSCO, in some cases leading to the development of regional markets under recognition arrangements. To bolster these efforts, greater attention can and should be given to focussing IOSCO's training and education activities on the core areas identified by members as relevant to the development of domestic markets.

To unite their efforts to establish standards and an effective surveillance of international securities transactions;

Members do unite in creating standards as evidenced above. The IOSCO MMOU is a tangible example of such a standard. However the second component of this aim – “*an effective surveillance of international securities transactions*” – is not very clearly expressed. Moreover, IOSCO has not concentrated as deeply on the issue of supervisory cooperation in cases not involving enforcement, an issue highlighted by the global financial crisis as needing attention. IOSCO has created a Task Force to consider the issue of greater supervisory cooperation, and could consider developing a research capacity to help identify emerging risks or analyse international securities transactions for potential market misconduct.

To provide mutual assistance to promote the integrity of the (sic) markets by a rigorous application of the standards and by effective enforcement against offences.

IOSCO does support quite effectively the mission aim of effective enforcement through the promotion of the MMOU and our dialogue with uncooperative/under regulated jurisdictions. This approach has proved successful and could be used as the possible model for any review of members' adherence to the Principles. In addition, IOSCO might consider building on the MMOU by completing its implementation across the whole membership and committing to reviewing the MMOU's effectiveness in due course.

Lessons from the Global Financial Crisis

It is also instructive to consider lessons from the global financial crisis.

While the crisis commenced in unregulated segments of the market and became a credit (rather than market) crisis, the key elements of risk were transmitted through markets which IOSCO members regulate or exempt from regulation.

While much has been written on the lessons from the crisis for industry, regulators and governments, there are a few key themes which have consistently surfaced in the literature, most notably in the 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, including to fill any existing gaps in regulation, strengthen market infrastructure, and enhance coordination and cooperation amongst regulators in building globally consistent regulatory frameworks; and
- The need for *improved communication and cooperation* globally between regulators, in enforcement, market surveillance, and supervision of markets and market intermediaries.

These three themes are, the Task Force believes, directly relevant to IOSCO's mission, role and strategic goals.

TASK FORCE RECOMMENDATIONS

Recommendation on Mission

Based on this, the Task Force proposes that the organisation reformulates its mission aims in order to reflect what it actually does which should in turn support the identification of short and long term goals to be pursued in support of these mission aims.

The suggested reformed mission aims would be that IOSCO's members are committed:

- **to cooperate in developing, implementing and promoting adherence to internationally recognised and consistent standards of regulation in order to protect investors, maintain orderly, efficient and fair markets, and mitigate systemic risks;**
- **to promote investor confidence in the integrity of capital markets and enhance protection of investors, through effective implementation of the standards and through strengthened information exchange and other cooperation in enforcement actions against misconduct and supervision of markets and market intermediaries; and**
- **to exchange information on their respective experiences in order to assist the development of markets, strengthen market infrastructure and implement appropriate regulation, especially at regional level.**

Recommendation on IOSCO's Role as a Standard Setter

The development of the organisation, and to a degree the financial crisis, has seen IOSCO variously described as a “*cooperative forum*”, “*an association of regulators*” and of course as an “*international standard setter*”.

The first two descriptions flow from the organisation’s By-laws which describe the members as being “*joined together in the International Organization of Securities Commissions (IOSCO) to better carry out their respective missions through the **forum** for discussions and cooperation provided by the Organisation*”.

The third description however has developed over time through external recognition of IOSCO’s efforts and the recognition that IOSCO has played, and has a role to play, in standard setting and the promotion of the Principles. Members have also contributed to this perception given their use of and reference to various IOSCO guidelines, principles etc as the basis for their own regulatory approaches or as evidence of market participants compliance with certain regulatory requirements. However IOSCO itself has never explicitly set this down as one of its core mission aims.

Given the expectations of IOSCO members, and of others within the new emerging global financial regulatory system such as the G-20 and the FSB, the Task Force proposes that IOSCO should formalise its role as the recognised standard setter for securities regulation.

Recommendation on IOSCO’s Role with respect to Systemic Risk

IOSCO members need to have particular regard to investor protection, market integrity and the proper conduct of business within markets as contributing factors to systemic stability.

The recent global financial crisis has demonstrated the fact that systemic risks can arise outside the regulated sector and can be quickly transmitted through financial markets. In this regard IOSCO members need to identify, assess and mitigate emerging systemic risks both within and beyond the perimeter of regulation. Where necessary, Members should review whether the perimeter of regulation remains appropriate.

In addition, the securities regulatory framework should seek to ensure that the failure of regulated entities or market disruption does not significantly impair the efficient functioning of the markets and therefore adversely affect the economy.

The Task Force recommends that these key principles should guide IOSCO Members in framing their actions with respect to identifying and seeking to mitigate emerging systemic risks.

Recommendation on Strategic Goals

Based on a re-targeted set of organisational mission aims and taking into account the current financial climate, a small number of achievable external goals would serve to give notice of IOSCO's intention to continue to pursue activities that support its mission aims.

The Task Force proposes the following list of possible goals, to be achieved over the coming five years, based on the agreed Framework for the Strategic Review:

- **Maintain and improve the international regulatory framework for securities markets via the setting of international standards, especially through:**
 - Building members' regulatory capacity through the systematic implementation of the IOSCO Objectives and Principles of Securities Regulation throughout its membership and its training and education program;
 - Building the enforcement and surveillance framework, through full implementation of the IOSCO MOU by having all members become Appendix A signatories, possible enhancements to the MOU, and working with uncooperative and/or under regulated jurisdictions; and
 - Development of international standards, through the systematic and periodic review of the IOSCO Objectives and Principles of Securities Regulation, and developing standards to deal with emerging risks and inadequate functioning of markets.

- **Identify and address systemic risks to the fair and efficient functioning of markets, especially through:**
 - Building an independent research capacity to identify risks to the fair and efficient functioning of markets;
 - Developing new or enhanced global standards and implementable actions, within members' responsibility, to help mitigate these risks;
 - Liaising with other international financial standard setters and other global bodies having a mission complementary to that of IOSCO; and

- **Strengthen IOSCO's role within the international financial community in order to advance the implementation of high-level objectives and principles of securities regulation, especially through:**
 - Representation of IOSCO in relevant decision making forums;
 - Strengthening communications with stakeholders, in particular the other international financial standard setters and with bodies representing the industry;
 - Improving interaction within the IOSCO membership; and
 - Improving linkages with relevant international standard setters.

As a consequence of setting these external goals and priorities, and in light of the increased role of international standard setting and of the G20 Leaders and Finance Ministers in marshalling responses to the global financial crisis, IOSCO will need to consider how it is resourced and structured to perform its role. In particular, while IOSCO's committee structure has served it well, it may not be sufficiently flexible to meet both external demands for timely development of standards and identification of risks, nor internal demands for greater services for members. **IOSCO should therefore commit to reviewing its structure, its membership rules, and its organizational capacity and resources.**

Recommended draft statement of IOSCO's Role and Goals 2010 to 2015

Attached is a draft statement reflecting the recommendations above. The Task Force proposes to revise this draft statement to take account of comments that you may have, discuss it with the Executive Committee, and submit an agreed version as a proposed resolution to the next meeting of the Presidents Committee in June 2010.

NEXT STEPS

In the coming months I expect to circulate further options papers going to the substance of the draft strategic goals, in particular on proposals:

- to build an independent research capacity;
- to build members' regulatory capacity through the systematic implementation of the IOSCO Principles and Objectives of Securities Regulation; and
- to complete the implementation of the IOSCO MMOU on information sharing.

As it is important to determine and flesh out the substance of the strategic direction before dealing with funding and structural issues, I do not envisage that we will deal with structural issues until later in the review.

Request for comments

I would welcome your comments on this paper and particularly the attachment. There will also be an opportunity to discuss it in forthcoming IOSCO meetings.

To assist and encourage an open debate on the issues and questions posed in this paper and attachment the General Secretariat has established, within the members' area of the website, a dedicated forum – **Task Force on the Review of the IOSCO Strategic Direction** – where these documents will be posted and where I would ask members to post their comments in response.

All members receiving this document should already have access to the IOSCO members' area of the website and, if not already registered for the members' forums, will be prompted to create a login identity when first attempting to use the forum facility.

Should you or one of your delegates require access to the members' area and forums please contact David Cliffe at d.cliffe@iosco.org to organise access.

Written comments, which will also be published to the dedicated forum, can be sent to:

Greg Tanzer
Secretary General
Email: g.tanzer@iosco.org

if possible **by 30 November 2009**.

TASK FORCE ON THE REVIEW OF THE STRATEGIC DIRECTION

DRAFT STATEMENT OF IOSCO'S ROLE AND GOALS 2010 TO 2015

IOSCO is the global standards setter for capital markets regulation, and the primary global forum for cooperation amongst securities regulators. Its members are committed:

- to cooperate in developing, implementing and promoting adherence to internationally recognised and consistent standards of regulation in order to protect investors, maintain orderly, efficient and fair markets, and mitigate systemic risks;
- to promote investor confidence in the integrity of capital markets and enhance protection of investors, through effective implementation of the standards and through strengthened information exchange and other cooperation in enforcement actions against misconduct in those markets and supervision of markets and market intermediaries; and
- to exchange information on their respective experiences in order to assist the development of markets, strengthen market infrastructure and implement appropriate regulation, especially at regional level.

For the next five years, its goals are to:

- **Maintain and improve the international regulatory framework for securities markets via the setting of international standards, especially through:**
 - Building members' regulatory capacity through the systematic implementation of the IOSCO Objectives and Principles of Securities Regulation throughout its membership and its training and education program;
 - Building the enforcement and surveillance framework, through full implementation of the IOSCO MOU by having all members become Appendix A signatories, possible enhancements to the MOU, and working with uncooperative and/or under regulated jurisdictions; and
 - Development of international standards, through the systematic and periodic review of the IOSCO Objectives and Principles of Securities Regulation, and developing standards to deal with emerging risks and inadequate functioning of markets.
- **Identify and address systemic risks to the fair and efficient functioning of markets, especially through:**

- Building an independent research capacity to identify risks to the fair and efficient functioning of markets;
 - Developing new or enhanced global standards and implementable actions, within members' responsibility, to help mitigate these risks;
 - Liaising with other international financial standard setters and other global bodies having a mission complementary to that of IOSCO; and
- **Strengthen IOSCO's role within the international financial community in order to advance the implementation of high-level objectives and principles of securities regulation, especially through:**
 - Representation of IOSCO in relevant decision making forums;
 - Strengthening communications with stakeholders, in particular the other international financial standard setters and with bodies representing the industry and investors;
 - Improving interaction and cooperation within the IOSCO membership; and
 - Improving linkages with relevant international standard setters.

As a consequence of setting these external goals and priorities, and in light of the increased role of international standard setting and of the G20 Leaders and Finance Ministers in marshalling responses to the global financial crisis, IOSCO will need to consider how it is resourced and structured to perform its role. **IOSCO therefore commits to reviewing its structure, its membership rules, and its organizational capacity and resources.**