

Financial Conduct Authority - International Capital Markets
Conference 2024

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**Speech Jean-Paul Servais, IOSCO Board Chair: The Role of International
Regulators**

1. INTRODUCTION: THE ROLE OF REGULATION

- We live in a time of technological, and geopolitical, and environmental changes. These changes are taking place in the period following the great financial crisis (GFC) of 2008, which triggered a strong focus of the international regulatory agenda on the resilience of the banking system.
- These changes have an impact on the way financial markets and services operate.
- As international regulators, we have a duty to be clear about when these changes trigger our attention and when they warrant our intervention. Our added value is to enhance trust in the markets.
- So today I will explain how we see our role in strengthening trust and what our priorities are going forward.
- In this respect, I believe that regulation should help capital markets achieve societal goals that include growth and development. I would further say that it should do this while avoiding the pitfalls of unchecked greed and misconduct, as well as making sure that financial stability is not threatened as innovation proceeds. As well as being proactive, regulation also needs to be proportionate; it should be adaptive to the current context; and, at IOSCO we firmly believe in international regulatory cooperation.

- Over the past decade, non-bank finance has grown significantly across all continents, now representing near half of global financial assets, and is creating new challenges and opportunities.
- Our regulations, our supervisory practices, and our international cooperation tools need to adapt to these changes.

2. IOSCO'S WORK AS AN ENABLER OF TRUST

- The aftermath of the financial crisis brought about a significant regulatory overhaul. Regulators came together internationally to restore market discipline, improve transparency, and strengthen oversight of financial institutions.
- One of the pillars of ensuring that markets function smoothly is trust, and trust can be strengthened when regulators ensure that all participants follow the rules and are treated fairly.
- Whether we talk about tackling liquidity or leverage risks arising from the growth of non-bank financial intermediation; whether we talk about new forms of risk arising from new technologies like crypto-assets or artificial intelligence, or whether we talk about enhancing the consistency, reliability and comparability of sustainability information in the interests of investors and issuers, it is clear that the issues we face are global and that they require a coordinated response. With a membership which regulates more than 95% of the world's securities markets across 130 jurisdictions, IOSCO is well placed to provide such a response.
- IOSCO and its members are proud to have played a key role in strengthening confidence in securities markets. As I will mention below, we have developed Principles for Financial Benchmarks, which are now the gold standard for financial indices worldwide and have inspired legislation both in the EU and here in the UK; we have developed recommendations for open-ended investment funds through tireless efforts to ensure appropriate liquidity management; and now we are at the forefront of the regulatory initiatives with regard to sustainable finance and technology.

- Key to the building of this Trust are the three IOSCO objectives of:
 - Enhancing investor protection
 - Ensuring markets are fair and efficient; and
 - Promoting financial stability by reducing systemic risk.
- It is indeed interesting that this conference is taking place at the same time as the IOSCO World Investor Week which aims to promote financial literacy worldwide, so I am happy that we are - in one way or another -- covering all three IOSCO objectives during this week.

3. THE IMPACT OF IOSCO'S PRINCIPLES-BASED WORK

- So, what can we do as international regulators? And what have we done to deliver trust?
- IOSCO's work has been principles-based and outcomes-focused. This ability of our members to go back to the fundamentals has resulted in outstanding work. I will not be able to do full justice to our work here but will provide a few important illustrative examples:

A. Interest rate benchmarks

- I already mentioned IOSCO's work on interest rate benchmarks, which was initially led by the UK FCA and Gary Gensler, then the US CTFC chair. The IOSCO Principles for Financial Benchmarks have inspired legislation both in the EU and here in the UK.
- This may be a good moment to remind you that the last LIBOR settings were published last week and this chapter is now finally concluded.
- IOSCO typically delivers principles-based recommendations that, while making a significant impact, also leave a certain degree of flexibility for jurisdictions to adjust in light of their domestic or regional specificities.

B. Credit Rating Agencies:

- There was a very similar pattern for bringing credit rating agencies into the regulatory perimeter across several jurisdictions, including the EU and the UK, after the publication of IOSCO's report.

C. Collective Investment Schemes:

- And of course, most of you are who run investment funds will be aware that today's approach to Collective Investment Schemes regulation across the world remains largely founded on IOSCO's 1994 principles for the regulation of collective investment schemes.
- We continuously seek to update our framework by learning from past stresses and taking into account how our recommendations have been implemented; this year, we will be publishing a Consultation Paper revising our 2018 Liquidity Risk Management recommendations after we and the FSB have worked to take stock of the stresses in this area during the pandemic.

4. IOSCO'S OUTCOMES FOCUS AND PROPORTIONATE WORK ON SUSTAINABLE FINANCE AND ON TECHNOLOGICAL IMPACTS:

- I would like to highlight some very **recent examples** of our work that are shaping the future of capital markets. Since my election as IOSCO Board Chair in 2022 and re-election in 2024. If, as we witnessed during the 2008 GFC, under-regulation invites collapse, over-regulation may stifle innovation. The key is therefore outcomes-focused and proportionate regulation —calibrated and consistent with the complexities of today's emerging markets such as crypto-assets, artificial intelligence, and sustainable finance.

A. Sustainable Finance:

- Governments, including here in the United Kingdom, have committed to meeting the ambitious goals set out in the Paris Agreement.
- Financial markets will play a critical role in this transformation. Corporates are increasingly recognizing their role in the transition to a low-carbon economy, and investors are bringing green considerations to their portfolios.
- The endorsement of the International Sustainability Standards Board (ISSB) inaugural standards is a powerful example of IOSCO's ability to deliver a coordinated response to a global challenge. This endorsement in July 2023 has prompted more than 20 jurisdictions to take steps to integrate these standards into their regulatory regimes within just one year! Together, these jurisdictions represent over 40 % of global market capitalisation. This means that IOSCO's call for action for jurisdictions "*to consider ways in which they might adopt, apply or otherwise be informed by the ISSB Standards*" has been heard.
- We are now focusing on providing technical assistance and guidance to help regulators understand how they can integrate the ISSB standards into their own frameworks with appropriate alignment. This is critical to minimising fragmentation.
- We are coordinating this enhanced level of assistance across our members through IOSCO's Growth and Emerging Markets Committee – our largest Committee - taking into account the varying needs of its wide membership. Through these efforts, I am increasingly confident that around 130,000 companies will eventually be releasing non-financial disclosures in one form or another using the ISSB framework.
- As we are in the UK, it is worth mentioning that IOSCO has already published recommendations for regulating ESG ratings

and data providers. In 2021, we responded to evolving market developments and anticipated the related challenges with ESG ratings ahead of our member jurisdictions. IOSCO's recommendations have positively influenced the EU Regulation adopted earlier this year. I am confident our recommendations could be of great interest as the UK considers its own legislative framework for ESG ratings.

- IOSCO is also conducting work on disclosures of transition plans disclosures, which will be concluded in due course. In this respect, I would like to point out that IOSCO has also learned from the FCA's expertise and experience with the UK Transition Plan Taskforce. We share the same ambition: to elevate the quality, the consistency, the comparability and therefore the level of trust in transition plan disclosures that are being released voluntarily by firms globally.

B. Financial Technology and Innovation

- Our work on crypto-assets is another example I would like to mention today with regard to outcomes-focused regulation. The rapid growth of these types of assets has brought new challenges for regulators. Without a coordinated international approach, there is a risk of creating regulatory arbitrage. Different rules in different jurisdictions could significantly harm both retail and non-retail investors.
- It is important for me to say that we are not trying to stifle innovation. We recognise that financial innovations like Distributed Ledger Technology, including tokenisation and artificial intelligence, can bring efficiency gains and opportunities to the markets. We are mindful, however, of the need to mitigate the new forms of risks they present.
- We finalised our recommendations for the regulation of Crypto and Digital Assets last year and are now supporting their

implementation worldwide. This is why we are working closely with other international bodies, such as the Financial Stability Board (FSB), the World Bank, the International Monetary Fund (IMF) and others like the Financial Action Task Force (FATF), to ensure that our recommendations for crypto and digital assets are recognised as the gold standard, and that other global bodies support their adoption across all jurisdictions.

C. Areas for further policy work on core markets

- IOSCO has carried out significant work on strengthening the resilience of market-based finance. For the asset managers in the room, you will be aware of our ongoing work, once again, on open-ended investment funds but also on the use of leverage, in collaboration with the Financial Stability Board.
- We continue to monitor risks of market fragmentation and we benefit from the invaluable insights of our affiliate members, including industry associations and stakeholders. Their input highlights how market fragmentation can undermine market efficiency.
- Going forward, we will continue to monitor developments which may bring risk to stability and economic growth; for example, our work on margin practices and Central Counterparties (CCPs) with the Committee on Payments and Market Infrastructures (CPMI) and the Basel Committee on Bank Supervision (BCBS) will ensure greater transparency for clients, which should make them better prepared for margin calls.
- And we will continue to consider whether changing market structures across key markets may require better regulatory attention due to the impact they may have on the overall functioning of those markets.

5. RESILIENCE OF FINANCIAL MARKETS

- Markets are used to fund public policies, to enable innovative solutions to scale, to monetise externalities – such as carbon dioxide emissions – and to support development by facilitating international investment.
- Many IOSCO board members have travelled to London from different continents to participate in today's conference. This demonstrates the importance of the UK FCA as a global regulator. I see Julia, Verena, Marie-Anne, Vassiliki, and others will be speaking today about international regulatory priorities. Each IOSCO board member faces similar challenges at home, and we are trying to solve them together.
- Wherever you are coming from, the changes and challenges I mentioned will sound familiar to you because these are truly global themes.
- As the risks in the financial sector evolve, we ought to adopt measures to safeguard the robustness of our financial system.
- As a global standard-setting body, IOSCO has always championed international collaboration. And it is fair to say that our efforts have reached new heights in recent years. In a complex and fast-changing financial environment, no single jurisdiction can tackle challenges alone. IOSCO principles and recommendations strongly inform the political agendas at domestic or regional levels,
- IOSCO has played a unique role in the cooperation of its members in the enforcement of market rules in their daily work. Through its Multilateral Memorandum of Understanding, signed by 130 jurisdictions, IOSCO ensures that the reach of the regulator does not stop where its jurisdiction ends and that cross-border misconduct can - and will – be pursued.
- The IOSCO MMoU has recently celebrated its twentieth anniversary and the number of requests to overseas signatories has

grown from 56 per year in 2003 to 6,198 request in 2023. *That's a staggering increase.*

- A prominent example of international cooperation among regulators — which benefited immensely from the use of the MMoU — was the investigation into the manipulation of interest rate benchmarks/LIBOR. This cooperation made it possible to unveil large-scale illicit behaviour and prompted a change of culture in the financial sector globally.
- The reach of IOSCO's outcome-focused policies and cooperation arrangements has grown in influence over the past decades.

6. IOSCO'S PLACE IN THE FINANCIAL REGULATORY ARCHITECTURE

- IOSCO has entered a new era of collaboration, not only across its membership but also with other global standard-setting bodies. We are working with the BCBS, CPMI and FSB. Our enhanced cooperation with the FSB, the International Monetary Fund (IMF), the World Bank, the Organisation for Economic Co-operation and Development (OECD) and others has strengthened IOSCO's role in the international financial regulatory system and directly contributes to the work of the G20.
- The International Monetary Fund already makes use of IOSCO's Principles and Methodology, and, more recently, its recommendations for crypto and digital assets as they conduct jurisdictional Financial Stability Assessment Programs.
- We are also considering collaborating with the World Bank in order to enhance the financial integrity of Voluntary Carbon Market schemes on the basis of our soon-to-be-published recommendations.
- This collaboration is crucial. It allows us to leverage each other's strengths and expertise, leading to more robust and effective regulatory outcomes.
- IOSCO's standards are recognised as key pillars in the architecture of global financial regulation. They enhance trust in

the financial system. They provide jurisdictions with the tools they need to develop their financial ecosystems in a resilient and inclusive way. Our core capacity building program is designed to help our members implement the IOSCO recommendations in a globally consistent manner.

7. CONCLUSION

- In conclusion, the challenges we face are global in nature, and so must be our solutions.
- Now more than ever, international regulators have a crucial role to play here, and IOSCO's commitment to international cooperation has never been stronger.
- I encourage you all to stay engaged with IOSCO's work and to consider how our initiatives can inform and inspire your own efforts. At the same time, we must have the humility to recognise that we have not solved all of the issues, and we need to work together to find solutions.
- The next panel with Julia, Verena, Vasiliki, Gaston and Sarah, led by Therese, will shed light on ongoing international regulatory efforts.
- I want to thank Nikhil, Ashley and all FCA colleagues for their commitment to IOSCO. IOSCO greatly benefits from the excellence of your contributions and expertise.
- Thank you for your attention and I wish you an insightful event.