



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores

12 October 2011

**Intergovernmental Working Group of Experts on International Standards
of Accounting and Reporting**

Building a Better Financial System: IOSCO's Role

12 October 2011

Speech by

Greg Tanzer

Secretary General,

International Organization of Securities Commissions

SP05-11

Distinguished Guests, Ladies And Gentlemen

I would like to thank you for inviting me here to address this prestigious gathering of experts on International Standards of Accounting and Reporting, on behalf of the International Organization of Securities Commissions.

IOSCO is the leading international policy forum for securities regulators, with a membership of over 126 securities regulators who are responsible for regulating



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores

more than 95% of the world's capital markets including the major capital markets of Europe, the Americas, Africa and Asia, and we are still growing. IOSCO's members are mostly independent governmental regulatory agencies with primary responsibility for administering the securities laws of their country, or regulatory bodies with responsibility for discrete segments of national securities markets within a jurisdiction. The organisation takes decisions by consensus and makes recommendations for endorsement by our Presidents' Committee, where all members are represented and have an equal say irrespective of the size or development stage of their markets.

Investor confidence is at the core of IOSCO's aims, and we recognise that it depends to a large extent on the integrity, comprehensiveness and transparency of financial reporting. Likewise global financial stability relies on market confidence. Sound financial reporting becomes a critical element in mitigating systemic risk and encouraging people to invest in securities markets with the corresponding effects in the economic growth. I will now outline how my organisation contributes to these important goals.

IOSCO's Disclosure and Transparency Objectives

IOSCO is now recognised as the global securities-markets standards-setter by the G20, the International Monetary Fund and the World Bank, along with its banking and insurance counterparts at the Basel Committee on Banking Supervision and the International Association of Insurance Supervisors. This status is reflected in the fact that we now have two seats on the Financial



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores

Stability Board (FSB), representing the more developed markets and also emerging markets jurisdictions.

As a standard setter, policy development work is at the core of our activities and this is carried out by two specialised committees, the Technical Committee and the Emerging Markets Committee.

The Technical Committee's remit is to review regulatory issues related to international securities markets and to coordinate practical responses to identified concerns, while the Emerging Markets Committee aims to develop and improve the efficiency of emerging securities markets through: the introduction of minimum standards; the provision of training programmes for members' regulatory staff; and facilitating the exchange of information, technology and expertise.

The regulatory policy work of our committees is informed by IOSCO's aims and objectives which are:

- to cooperate in developing, implementing and promoting adherence to internationally recognised 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;
- 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



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores

- 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.

We hope to increase the effectiveness and focus of our policy work with the merger next year of the two separate committees into the IOSCO Board, thereby ensuring that our expertise and focus assists all equally.

IOSCO's Response to the financial crisis

The financial crisis has laid bare a lot of uncomfortable facts about the global financial system, including: gross breaches of conduct of business, both to retail customers and professional investors; a lack of transparency in markets that we believed to be well organized; and a massive shift of losses to the public sector.

Following the first effects of the financial crisis, IOSCO embarked on a programme of overhauling securities markets standards including, in particular, those areas highlighted as being problematic or having a contributory factor to the crisis, such as the regulation of credit rating agencies.

IOSCO is well advanced on an ambitious post-crisis work programme to address more forward looking issues affecting the regulation and oversight of securities markets and is at the cutting edge of the development of the necessary standards, such as the regulation of OTC derivatives and commodity derivatives markets.



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores

The importance of disclosure and transparency

But at the heart of all of this work are two core pillars of securities regulation which are relevant to the focus of today's conference, disclosure and transparency.

At the time that the financial crisis reached a peak in September 2008, when Lehman Brothers closed its doors, the key fear that gripped the markets was uncertainty – uncertainty about the financial position of counterparties, uncertainty about future funding lines, and therefore uncertainty about institutions' own financial position. While the regulated securities markets stood up very well under extreme stress, and millions of transaction continued to be made and cleared, there was uncertainty about the position with a range of unregulated or OTC products.

As the financial crisis has developed into a crisis of confidence in sovereign debt more recently, again what we can see at the heart of the problem is uncertainty, this time about public finances in some countries and the political and regulatory actions that will be taken to address them.

This uncertainty – some would call it panic – is fundamentally caused by a lack of transparency and disclosure. Transparency and disclosure lies at the absolute heart of an effective capital market. With adequate transparency, market participants can accurately assess their risks and act accordingly. Without it,



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores

they are forced to act on inadequate information, or perhaps worse they do not act at all and the system seizes.

So, it is very timely to talk today in a little more detail about IOSCO's work related to disclosure and to valuation, which are central to effective transparency.

Disclosure

In 2008 IOSCO's Subprime Task Force found that the financial crisis had raised issues around the opacity of trading in certain structured finance products. The Task Force recommended that the Technical Committee's Standing Committee on Multinational Disclosure and Accounting – the key internal committee focusing on accounting and disclosure as seen from the viewpoint of securities regulators – consult with market participants regarding the typical structures and disclosure practices for private placements of asset-backed securities or ABS:

- to determine the degree to which these practices are as developed as they are for publicly traded asset-backed securities;
- to review if existing IOSCO issuer disclosure standards and principles are applicable to these products; and, if necessary
- to develop international principles regarding disclosure requirements for these securities if it found that existing standards were inapplicable.

Following an in-depth analysis it was found that, due to the unique nature of asset backed securities and their issuers, the types of disclosure that would be



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores

deemed most material to ABS investors are not fully captured by the existing IOSCO disclosure standards and principles.

This led to the publication of ABS Disclosure Principles in 2010, based on the premise that the issuing entity will prepare a document used for a public offering or listing of ABS that will contain all material information, clearly presented, that is necessary for full and fair disclosure of the character of the securities being offered or listed in order to assist investors in making their investment decision. The objective of these principles is to enhance investor protection by facilitating a better understanding of the issues that should be considered by regulators in developing or reviewing their disclosure regimes for ABS.

Other recent crisis-related work regarding issuer disclosure includes the publication of a set of Periodic Disclosure Principles for disclosures that could be provided in the periodic reports, particularly annual reports, of listed entities whose securities are listed or admitted to trading on a regulated market in which retail investors participate. These also cover other issues related to periodic disclosure, such as the timeliness of disclosures, disclosure criteria and storage of information.

Valuation

The Task Force also found that there were concerns regarding the role that fair value accounting principles played in providing investors and regulators with adequate information about the strength of financial firms facing illiquid market conditions, and that some financial firms appear to have inadequate human and



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores

technological resources to model their financial positions using fair value accounting principles under illiquid market conditions. Therefore the Task Force asked that the Standing Committee consider whether additional guidance and disclosure related to measurement at fair value would be valuable in meeting the needs of investors. In addition, IOSCO has along with other standard setting bodies been considering the best approach to provisioning for expected losses of financial institutions through the business cycle. The Standing Committee has provided input on these issues to the International Accounting Standards Board in conjunction with its accelerated work in this area during 2008-2009.

An ancillary workstream in this area involved the Standing Committees on Market Intermediaries and Investment Management examining whether, as a matter of internal control, registered intermediaries and investment advisers avail themselves of practitioners who are skilled or trained enough to model fair valuation adequately in illiquid market conditions.

IOSCO's Current Workstreams

I will now briefly outline IOSCO's current work in relation to financial reporting and transparency. I have previously referred to the work of the Standing Committee on Multinational Disclosure and Accounting, and its work programme continues to focus on the quality of financial information provided to investors by listed companies and financial institutions, and the accounting and auditing standards that underpin this information.



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores

The Standing Committee continues to monitor and support the work of the international accounting standard setting bodies through the provision of views on behalf of securities regulators in relation to their work, as a participant in their working groups and as observers.

This work has involved monitoring, and providing comment on, the projects being undertaken by the International Financial Reporting Standards Foundation (IFRS Foundation). The committee also participates as an observer in the IFRS Interpretations Committee (IFRIC), as well as the IFRS Advisory Council and other IFRS Advisory Groups.

IOSCO believes that international audit standards that contribute to high quality audits are important for securities regulators and essential to maintaining investor confidence, therefore it continues to monitor the activities of IFAC's International Auditing and Assurance Standards Board (IAASB) and the International Ethical Standards Board for Accountants (IESBA) and provides input through the IOSCO members who participate in their respective Consultative Advisory Groups (CAGs). It also continues to monitor the work and activities of the International Forum of Independent Audit Regulators (IFIAR).

The Standing Committee's work programme continues to be influenced by those issues raised by the financial crisis particularly in the areas of improved issuer transparency and valuation and accounting issues. As a continuation of its work on developing ABS Disclosure Principles, the Standing Committee is currently engaged in a project to develop principles for ongoing public



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores

disclosure for Asset-Backed Securities. These are likely to be published in early 2012.

One of the more positive outcomes from the crisis has been reinforcement of the view that good, high quality financial reporting is crucial to the integrity and proper functioning of financial markets and that adherence to fundamental principles on transparency and disclosure are necessary to restore and maintain investor confidence in capital markets.

For many, financial reporting has played a very significant role in the crisis. Some are of the view that the application of mark-to-market, or fair value, accounting to impairment losses in distressed markets undermined market confidence, exacerbated risk aversion and contributed to a pro-cyclical worsening of the crisis. Inexperience in the use of fair value accounting and in the implementation of intricate and sophisticated valuation techniques behind the accounting treatment of complex structured financial products and derivatives contributed to investors being misled. Others claim that behind the scenes hidden risks in off-balance sheet structures unfolded in contingent liabilities that reduced the confidence in the soundness of financial institutions. Shortcomings in corporate governance practices and failures in the independence of external auditors also added fuel to the fire.

The crisis has underscored the importance of some fundamental principles of disclosure that financial reporting should meet in order to contribute to the efficiency of markets and to fulfil its main role in providing transparent, accurate and relevant information to investors. These disclosures are not only



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores

about the issuer's performance and financial condition but also about issuer's risks and any other information that might be material to investors and users.

Accurate financial reporting depends on high quality accounting standards that can be consistently applied. It is vital that these standards can be properly enforced. The audit of the financial reports needs to be conducted in a rigorous and independent manner, in accordance with high quality audit standards. Securities regulators commitment to these principles is reflected in IOSCO's engagement with the accounting and auditing standard setting bodies.

IOSCO's Standard Setting Role

In 1998 IOSCO adopted one of the most significant documents in its history called the: "*Objectives and Principles of Securities Regulation*" or simply the IOSCO Principles. This document consisted of 30 Core Principles of securities regulation, which are based upon three key objectives of securities regulation. These are:

- the protection of investors;
- ensuring that markets are fair, efficient and transparent; and
- the reduction of systemic risk.

The 30 principles give practical effect to these three objectives and are grouped into categories that cover the topics that are central to securities regulatory systems: the regulator, self-regulation, enforcement, cooperation with other



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores

domestic and foreign regulatory authorities, issuers, collective investment schemes, market intermediaries and the secondary market.

The creation of these Core Principles followed an extensive public consultation, and the document was designed to provide guidance for regulators in their oversight, and also to act as a yardstick against which progress towards effective regulation could be measured. The IOSCO Principles reflected IOSCO's commitment to the establishment and maintenance of consistently high regulatory standards by securities regulators globally.

IOSCO members at that time expressed their commitment to the objectives and principles set out in this document, with the aim of ensuring adherence in their respective jurisdictions. This commitment extended, and still extends, to seeking changes to any current legislation, policy or regulatory arrangements that may impede adherence to these principles.

The international standards IOSCO sets are the result of a thorough and transparent process that incorporates public consultation and requires consensus from all members for endorsement. This process provides each regulator with a vested interest in implementing the recommendations that they have collaboratively developed and collectively endorsed. These standards are not lowest common denominator standards: they represent a benchmark that all members regardless of their level of development aspire to achieve.

The IOSCO Principles are among the key International Standards and Codes that the G20 Leaders have committed to seeing implemented and peer-reviewed



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores

through the Financial Sector Assessment Programme. This programme conducted jointly by the IMF and the World Bank consists of a comprehensive assessment by international experts of the financial regulatory framework of countries who voluntarily submit to it. The assessments help identify the strengths and vulnerabilities of a country's financial system and seek to determine how key sources of risk are being managed. This helps governments to prioritize policy responses and ascertain developmental and technical assistance needs. In the time since the programme has been established, about three-quarters of IMF and World Bank member countries have completed or requested an initial assessment. The IOSCO Principles and its related IOSCO Assessment Methodology together provide the benchmark against which the securities sector is assessed. The G20 has recommended that all G20 members submit to an FSAP every 5 years and that other countries either engage in a self-assessment or an FSAP using the IOSCO Principles.

I believe the IOSCO Principles and their underlying objectives of the protection of investors; ensuring that markets are fair, efficient and transparent; and the reduction of systemic risk align well with G20 Leaders' aspirations. I should reiterate that these Principles do not constitute rules and regulations aimed at achieving convergence between regulators. They are rather a set of benchmark standards against which any jurisdiction is able to measure and align their own laws in a manner consistent with their own priorities, traditions, market developments and conditions and legal frameworks.

To keep pace with market developments and regulatory thinking, the Principles are organic and updated regularly. In 2009, IOSCO launched a review process



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores

undertaken by a taskforce of experts from regulatory agencies of developed and emerging markets as well as representatives from the IMF and the World Bank.

The FSAP process which I mentioned earlier, and G20 Leaders commitment to this, significantly reinforces IOSCO's standard-setting role in respect of the securities sector. IOSCO will continue its active policy dialogue with institutions such as the IMF and the World Bank which have a key role in assessing compliance with the standards set by IOSCO and other similar bodies. In addition it gives impetus to IOSCO's own assessment programme which is focused on the securities sector and uses experienced regulators from IOSCO members as assessors. I strongly believe that implementation by all jurisdictions of the IOSCO Principles will help reduce the scope for regulatory arbitrage that the G20 Leaders seek to achieve.

Principles for Issuers and Auditors

In 2010 we successfully revised the IOSCO Principles to reflect market developments and lessons learned from the crisis, in particular incorporating eight new principles to cover critical issues such as the role of securities regulators with respect to systemic risk, the regulation of credit rating agencies and hedge funds, and managing conflicts of interest.

Two out of these eight principles relate to auditor's oversight and auditor's independence. Currently five out of the now 38 IOSCO Principles refer to accounting, auditing or disclosure, highlighting the critical role that financial reporting and issuer disclosure plays in the capital markets.



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores

These principles are for:

Issuers, stating that;

16. There should be full, accurate and timely disclosure of financial results, risk and other information which is material to investors' decisions.
17. Holders of securities in a company should be treated in a fair and equitable manner.
18. Accounting standards used by issuers to prepare financial statements should be of a high and internationally acceptable quality.

And for Auditors, which state that:

19. Auditors should be subject to adequate levels of oversight.
20. Auditors should be independent of the issuing entity that they audit.
21. Audit standards should be of a high and internationally acceptable quality.

IOSCO's role in capacity building

IOSCO has long been active in developing adaptable and applicable high-level international standards for securities regulation. As we stated in our 2005 Strategic Direction, "it is time for the organization to focus on the systemic assessment of the level of implementation of the IOSCO Principles within the jurisdictions of each of IOSCO's members and to provide technical and policy level assistance".



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores

Beginning with a new Strategic Direction in 2010, IOSCO's current challenge is to consolidate its role in strengthening the regulatory capacity of its members, and other non-member securities regulators. IOSCO must do this if it is to successfully continue in its capacity of international standard setter for securities regulation.

In its 2010 Resolution on IOSCO's Mission, Goals and Priorities, the Presidents Committee endorsed the following IOSCO operational goals and priorities for the period 2010 to 2015:

“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 by its members and its training and education program.”

As mentioned earlier, the Presidents’ Committee, in approving the new Strategic Direction for the years 2010-15, included as an official aim of IOSCO that members should

“exchange information at both global and regional levels on their respective experiences in order to assist the development of markets, strengthen markets infrastructure and implement appropriate regulation”.



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores

It is in this context that IOSCO has embarked on further accelerating the implementation of the IOSCO Principles, and thus enhancing and building regulatory capacity.

While common standards are not a guarantee against future market failures or financial crises, effective implementation of those common standards is critical in at least reducing the likelihood or the impact of future potential crises, and the adoption of global regulatory standards should help bring convergence in approaches to regulatory oversight and reduce the possibility for regulatory arbitrage.

In Pittsburgh in September 2009, the G20 signalled its commitment to taking “action at the national and international level to raise standards together so that our national authorities implement global standards consistently in a way that ensures a level playing field and avoids fragmentation of markets, protectionism, and regulatory arbitrage.

In light of the support of the G20 for building regulatory capacity, IOSCO’s intention is to consolidate its role in strengthening the capacity of securities regulators and providing them with the necessary support in order to ensure a high degree of implementation of its Principles. IOSCO has become sufficiently mature within the international financial community to assume responsibility for providing intensified technical assistance and education & training activities to support its members in a more systematic and consolidated manner.



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores

IOSCO's Technical Assistance programme, along with its extensive Education and Training Programme, have become critical tools in achieving the major objectives it has set itself as well as supporting the G20's aims. IOSCO, from a policy perspective, stands ready to play a primary role both in developing appropriately tailored Technical Assistance and Education & Training projects and in delivering these initiatives for securities regulators. As an example of IOSCO's work we are currently involved in a capacity building exercise in a number of East African jurisdictions, as well as delivering a Mobile Seminar Training Program which has so far this year held its seminar on *Understanding New Financial Products and the Regulatory Implications of Those Products* in Costa Rica and Morocco, and will be repeated in Malaysia in November.

IOSCO is uniquely positioned to shape the global education and training regulatory landscape as well as to provide even greater value to its members through these programs, which can help jurisdictions provide a solution to many regulatory challenges and build much needed regulatory capacity.

IOSCO has an excellent technical basis for improving regulatory capacity, encapsulated in the IOSCO *Objectives and Principles of Securities Regulation* and the associated Methodology. The IOSCO Principles and the Methodology provide a detailed and globally accepted roadmap to establishing effective securities regulation in any securities market.

It should therefore be of no surprise that IOSCO and the Technical Committee also continues to focus on raising standards in relation to international cooperation and coordination among securities regulators.



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores

Conclusion

In support of the G20's call for greater coordination, IOSCO has advanced many of its regulatory priorities through its participation within other organizations such as the Financial Stability Board, the Joint Forum for Financial Conglomerates and the IASCF Monitoring Board. In addition, IOSCO has collaborated closely with the central bank committees – the Basel Committee on Banking Supervision and the Committee on Payments and Settlement Systems.

When considering the collaborative work being undertaken by these organizations, we must acknowledge both the unique perspective of securities regulators that is offered by IOSCO and the importance of the independent voice IOSCO provides for its membership in this new international regulatory framework. For, as we continue to pursue regulatory reform in these various international fora, we should not lose sight of the significant differences in certain of the guiding philosophies and goals among banking, insurance and securities regulators.

These differences are the result of the inherent tension in balancing the needs and interests of “investor protection” and financial stability.

In particular, the regulation and supervision of banks and insurance firms is more focused on stability than transparency. For example, enforcement actions of insurance and banking regulators are often negotiated and conducted far more discreetly than those in the securities sector - because banking and insurance



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores

regulators are rightly concerned that bad news about a firm or a public enforcement action will lead depositors or consumers to lose faith in that firm. Such a loss of faith could possibly lead to a run on the bank or a detrimental exit of policy holders.

By contrast, securities regulation is grounded on the principle of transparency. This focus is seen not only in securities regulator's emphasis on disclosure and transparent accounting and audit standards, but also extends to their methods of enforcement. Securities regulators tend to have aggressive and public enforcement programs where wrongdoers are prosecuted and punished swiftly and severely under the watchful eyes of the public and the media. Indeed, securities regulators believe public enforcement actions are necessary to deter fraud and reassure investors of the integrity of the system.

For securities regulators understand that without the confidence inspired by the transparency brought about by stringent disclosure requirements and robust and public enforcement of the laws, investors will lose the faith needed to keep capital flowing. Without the trust of investors, our markets will grind to a halt.

In the face of this brave new world of global financial oversight we must also not lose focus on our primary goals of investor protection and fostering fair, efficient and resilient markets for capital development through transparency, including sound disclosure supported by rigorous public enforcement. These goals should not be sacrificed, whether for political expediency or the sometimes competing needs of other financial sectors. For it is only through abiding by our mission and maintaining these objectives, that we, as securities



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores

regulators, ensure the health and vitality of our markets which are key to the stability of the global financial system as a whole.

In ensuring that regulators are in a position to meet these ambitious objectives, IOSCO looks forward to cooperating with you and those organisations with a similar interest in assisting jurisdictions in developing the means, and tools, required to create the framework upon which high quality corporate reporting can grow and flourish.

Thank you.