

# MEDIA STATEMENT



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

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## **Mitigating Systemic Risk – A Role for Securities Regulators**

The Technical Committee of the International Organization of Securities Commissions' (IOSCO) has published *Mitigating Systemic Risk – A Role for Securities Regulators*, which focuses on the role securities regulators play in addressing systemic risk.

The paper aims to promote discussion amongst securities regulators on the ways in which systemic risk intersects with their mandates and to provide insight into how IOSCO and its members can identify, monitor, mitigate and manage systemic risk. In order to support these discussions IOSCO will facilitate the dialogue amongst securities regulators as well as with the broader international regulatory community and other stakeholders.

In support of this increased focus, IOSCO has established a Standing Committee on Risk and Research (SCRR), to be led by Carlos Tavares, the Chairman of the Portuguese Securities Commission CMVM, whose role will be to coordinate members' monitoring of potential emerging systemic risks within securities markets. It will be supported in this work by a new Research Unit based at the General Secretariat in Madrid.

### **Securities Regulators and Systemic Risk**

IOSCO has identified reducing systemic risk as one of the three objectives of securities regulation, and in July 2010 it two new principles of securities regulation aimed at addressing systemic risk, namely:

**Principle 6** - *The Regulator should have or contribute to a process to monitor, mitigate and manage systemic risk, appropriate to its mandate; and*

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**Principle 7:** *The Regulator should have or contribute to a process to review the perimeter of regulation regularly.*

The discussion paper builds on these principles and begins a process of developing a methodology for the identification, analysis, monitoring and mitigation of systemic risk as well as the promotion of financial system stability.

## Key Findings

The discussion paper puts into context the role of securities regulators with respect to systemic risk: the primary ways in which it can develop in securities markets; approaches and indicators that securities regulators may use in seeking to identify sources of systemic risk; and guidance on how securities regulators can act, both to reduce the opportunity for systemic risk to arise and to reduce its impact. The paper's preliminary findings are that:

1. 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. Transparency in markets and products is crucial to understanding and mitigating systemic risk, in addition to allowing market participants to better price risk. Securities regulators have a particular responsibility and interest in promoting transparency at the market level as well as adequate disclosure at the product and market participant level;
2. 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. Without it, incentives can quickly become distorted with drastic consequences such as increased leverage and risk in the system. With it, investor confidence is likely to provide greater stability to the market;
3. Financial innovation and its implications for financial stability should be a focus for

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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;

4. 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. Sharing market information and knowledge, will be essential to deliver a truly efficient regulatory response to systemic risk; and
5. 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.

The findings form the basis of robust and effective systemic risk frameworks for securities regulators, however the development of processes to address systemic risk is an evolving field for securities regulators which will require ongoing research. IOSCO aims to continue to engage its members in the development of systemic risk frameworks, particularly through its SCRR.

## **Regulators' Actions**

IOSCO sees securities regulators as having a key role to play in identifying and mitigating systemic risk, which will involve incorporating a greater emphasis on reducing systemic risk into their everyday tasks and processes. Each IOSCO member will need to determine its own response in relation to its national mandate and regulatory structure, as well as the relative size and characteristics of its securities market. Individual regulators will need to evaluate the scale of their response and the extent to which they can leverage, rather than duplicate, the work of other members of the regulatory community.

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## **International Cooperation**

IOSCO recognizes that securities regulators share responsibility for dealing with systemic risk with central banks and prudential regulators and to ensure this happens, cooperation through bodies such as the FSB, the Basel Committee, the International Association of Insurance Supervisors and IOSCO is essential to promote the sharing of information, the combination of expertise and the coordination of actions.

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## NOTES FOR EDITORS

1. [\*Mitigating Systemic Risk – A Role for Securities Regulators.\*](#)
2. IOSCO Objectives and Principles of Securities Regulation, July 2010, available at <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD323.pdf>
3. IOSCO is recognized as the leading international policy forum for securities regulators. The organization's membership regulates more than 95% of the world's securities markets in over 100 jurisdictions and its membership is steadily growing.
4. The [Technical Committee](#), a specialised working group established by IOSCO's Executive Committee, is made up of 18 agencies that regulate some of the world's larger, more developed and internationalized markets. Its objective is to review major regulatory issues related to international securities and futures transactions and to coordinate practical responses to these concerns. Mr. Hans Hoogervorst, Chairman of the Netherlands Financial Markets Authority (AFM) is the Chairman of the Technical Committee. The members of the Technical Committee are the securities regulatory authorities of Australia, Brazil, China, France, Germany, Hong Kong, India, Italy, Japan, Mexico, the Netherlands, Ontario, Quebec, Spain, Switzerland, United Kingdom and the United States.
5. IOSCO aims through its permanent structures:
  - 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
  - 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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