



7 April, 2005

Final Communiqué of the XXXth Annual Conference of the International Organization of Securities Commissions (IOSCO)

The world's securities and futures regulators as well as other members of the international financial community met in Colombo, Sri Lanka, from 4 to 7 April 2005, on the occasion of the XXXth Annual Conference of the International Organization of Securities Commissions (IOSCO).

This year's conference, which attracted more than 400 delegates from around the world and included representatives from more than 100 jurisdictions, was hosted by the Securities and Exchange Commission of Sri Lanka.

The official guest, Sri Lankan Minister of Finance & Planning, Dr. Sarath Amunugama, said in his opening remarks to the Conference that the Sri Lankan commitment in hosting the conference was indicative of "international efforts to develop global standards in the securities market".

The Chairman of the Securities & Exchange Commission of Sri Lanka, Dr. Dayanath Jayasuriya, stated that: "As we rapidly move towards "one global village" with increased cross-border trading, regulators need to have access to new information gateways and channels of communication with fellow regulators".

The Chairman of the IOSCO Executive Committee, Ms Jane Diplock, added that: "Here in Sri Lanka this week we have taken landmark decisions in adopting a new strategic direction for IOSCO which sets the path for the next few years. It provides IOSCO with the opportunity to live up to its important responsibilities as the international standard setter for securities regulation."

In discussing the Organization's recent activities, the Chairman of the IOSCO Technical Committee, Mr. Andrew Sheng, stated that: "I want to thank everyone for working so hard to ensure that as an institution, IOSCO has visibly, decisively and demonstrably delivered on the expectations of the international community. This can be seen by the positive response of the Financial Stability Forum recently to our work".

The Chairman of the IOSCO Emerging Markets Committee, Mr. Dogan Cansizlar, supported this view and added that: "The challenges facing the developing markets should not be underestimated but the atmosphere of international collaboration within the IOSCO structures through investor education programs and training seminars is delivering positive results for the emerging markets".

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A number of important initiatives and accomplishments were announced at the Conference including:

1. IOSCO Strategic Direction

In recent years IOSCO has demonstrated tremendous success in raising the quality of securities market regulation and in strengthening consultation and cooperation between regulators. This has been one of the Organization's key achievements. In keeping with this success and in recognition of the important

international role which IOSCO plays, the Organization will be moving to ensure its continued effectiveness.

Accordingly, IOSCO has formally endorsed a range of operational priorities that will further strengthen the effectiveness of the Organization. These operational priorities will help continue a focus on common efforts as well as to coordinate actions. The objectives include maintaining the role of IOSCO as the international standard setter for securities regulation by improving enforcement related cross-border cooperation and implementing the *IOSCO Objectives and Principles of Securities Regulation* (IOSCO Principles). In addition, the Annual Conference has endorsed a new IOSCO Public Consultation Policy.

Part of the strategy will involve greater emphasis on the *IOSCO Multilateral Memorandum Concerning Consultation and Cooperation and the Exchange of Information* (IOSCO MOU). Adopted in May 2002, the IOSCO MOU represents one of the Organization's most significant contributions in the area of regulatory cooperation and effective cross-border enforcement. Currently, 27 IOSCO members have signed the MOU including the Banking Finance and Insurance Commission of Belgium, which was welcomed as the 27th signatory during the Conference. An additional five members have expressed their commitment in accordance with Appendix B of the IOSCO MOU.

At this Annual Conference, IOSCO has adopted a timetable by which all member regulators, which are not already signatories to the MOU, will be asked to meet this benchmark by 1 January 2010. By this date all member regulators should have applied for and been accepted as signatories under Appendix A of the IOSCO MOU or have expressed (via Appendix B), a commitment to seek legal authority to enable them to become signatories. In order to achieve these objectives, IOSCO will provide resources to members including technical assistance so that progress is made.

It is anticipated that the operational priority measures adopted at this Annual Conference involving the systematic implementation of the full spectrum of IOSCO Principles as well as an expanded network within the IOSCO MOU, will deliver significant benefits as the enforcement activities of members become stronger and national markets are made more attractive to investors.

2. Dealing with Uncooperative Jurisdictions

IOSCO re-confirmed its commitment to raise the standards for cross-border co-operation among securities regulators following the launch of this initiative in March 2005. This represents one of the Organization's most important activities at the present time and includes work in relation to offshore financial centres (OFCs). Since October 2004, an IOSCO committee has been working to identify jurisdictions that appear to be unable or unwilling to co-operate and then entering into a dialogue with them in order to resolve related issues.

3. Fight against Financial Fraud

Earlier this year, IOSCO released a report on Strengthening Capital Markets Against Financial Fraud. The report following an exhaustive assessment of existing regulatory structures aimed at identifying possible weaknesses in the international financial system. IOSCO has adopted an action plan that addresses a number of issues in order to rectify the most pressing concerns.

IOSCO's work in this area is based on two operational priorities for the future. These are to promote the implementation of existing standards and principles and secondly to improve the abilities of securities regulators to cooperate with each other in enforcing existing securities laws and regulations. As such, this work is entirely consistent with the operational priorities which IOSCO has endorsed at this Annual Conference.

4. Code of Conduct Fundamentals for Credit Rating Agencies

In late 2004, IOSCO published a Code of Conduct Fundamental for Credit Rating Agencies (CRAs). This followed an extensive consultation process involving rating agencies, issuers, investors, academics and financial institutions. In the period since the release of the Code Fundamentals, IOSCO has been pleased with the way in which financial markets have responded to date and it looks forward to the adoption of the Code Fundamentals in credit rating agency operations. The degree of flexibility that had been built into the Code Fundamentals has been essential to the success of this initiative.

5. Joint Forum

During the recent years IOSCO has been encouraged by the positive benefits that have resulted from its collaboration with the Basel Committee on Banking Supervision as well as the International Association of Insurance Supervisors. This work has included initiatives to coordinate actions in combating money laundering and the financing of terrorism. More recently, IOSCO has united with its Joint Forum partners to issue guidance on outsourcing in the financial services and also to finalize proposals for dealing with credit risk transfer management practices.

Given the success of these partnerships, IOSCO is committed to ensuring that these close collaborative relationships continue.

6. The IOSCO Assisted Assessment Program

As indicated earlier in this communiqué, the Organization continues to place a great deal of emphasis on efforts to promote compliance with the IOSCO Principles by members. The diversity in the structures of securities markets around the world and the degree of development in those markets as well as the varying institutional regulatory arrangements continue to present challenges in efforts to achieve full implementation.

In fulfilling this objective, IOSCO has in recent years been undertaking a pilot program to assist members in the completion of an assessment of their level of implementation of the IOSCO Principles using the IOSCO Assessment Methodology adopted in 2003. The program includes the development of an action plan in participating jurisdictions in order for them to overcome identified deficiencies. The objective will be further enhanced by the publication in electronic form on the IOSCO website of the implementation methodology during the second quarter of 2005. This will provide a link to all relevant IOSCO reports and be accessible by the international financial community.

To date a number of IOSCO members have greatly benefited from assistance in this initiative including those from El Salvador, Turkey, Thailand and Morocco. In addition, programs have more recently been launched to assist members from Sri Lanka, Ecuador and Russia.

7. IOSCO Training

IOSCO and its members conduct a wide variety of seminars and training programs throughout the year. These programs which have been developed and maintained by the General Secretariat, occur in all regions of the world and provide positive benefits particularly with the participation of IOSCO expert staff. As always, the Seminar Training Program will form a key component of the annual training program. It is scheduled to take place in October 2005 in Madrid.

8. Accounting, Auditing and Disclosure

8.1 International Financial Reporting Standards (IFRS) At this Annual Conference IOSCO has taken the opportunity to reiterate its support for the work of the International Accounting Standards Board (IASB), and encourages its members to accept financial statements in filings for cross-border offerings prepared under the International Financial Reporting Standards (IFRS), with additional reconciliation or disclosure as necessary to meet national standards. In addition, IOSCO has encouraged those members still using supplemental treatments to continue to evaluate their need with the hope that within the foreseeable future, such reconciliation treatments will no longer be necessary.

IOSCO is also developing procedures to encourage cooperation and consultation among members in the regulatory interpretation and enforcement of IFRS. A consultation paper outlining the options with this approach as well as the principles to be adopted and their implementation has been distributed to the IOSCO membership. IOSCO envisages that it will be in a position to confirm a final model during the second half of 2005, in time to be used in conjunction with reviews of 2005 annual financial statements.

8.2 Regulation and Oversight of Auditors In response to the widespread interest in the conduct and quality of audits and in oversight of auditors, IOSCO recently conducted a survey on the regulation and oversight of auditors in a number of different jurisdictions. The survey revealed that IOSCO principles for auditor oversight and auditor independence were broadly implemented in most of the developed markets and some of the emerging markets even though there remained wide variations in the approaches and structures that are applied. IOSCO is currently in the process of analyzing the survey results and considering possible revisions to the related IOSCO regulatory principles.

9. Regulation of Secondary Markets

9.1 Error Trade Policies IOSCO is currently undertaking a project to analyze the policies of organized securities and derivatives exchanges as well their regulators, in order to assess how they deal with transactions that are executed in error either due to the actions of a market participant or through malfunction of a trading system.

IOSCO believes that publishing a compilation of error trade policies will assist markets and market regulators to assess and develop their practices as well as encourage greater harmonization of approaches, thereby providing greater certainty concerning sources of operational risk. It is anticipated that a draft report will be prepared and considered by the IOSCO Technical Committee during the final quarter of 2005.

9.2 Exchange demutualization and cross-border linkages

Given that a number of exchanges have chosen to demutualize and obtain stock exchange listings in recent years, IOSCO has been reexamining the regulatory issues associated with this trend. Among other things, IOSCO is exploring approaches that could be considered by regulators in jurisdictions where demutualization might occur in the future and the regulatory issues that they raise, including the maintenance of public interest and conflicts of interest. A report dealing with these issues in emerging economies has been endorsed and it is anticipated that a further report on these issues in developed markets will also be considered by IOSCO in the final quarter of 2005.

10. Regulation of Market Intermediaries

10.1 Outsourcing

In consultation with the Joint Forum, IOSCO has finalized a position on outsourcing principles. This follows the publication in August 2004 of an IOSCO Consultation Report on *Principles on Outsourcing of Financial Services for Market Intermediaries*. The report sets out a number of regulatory principles that are designed to assist regulated entities in determining the steps that should be taken when considering outsourcing activities.

10.2 Compliance

IOSCO is publishing a paper which addresses the wide range of issues associated with the responsibilities of market intermediaries to establish a compliance function that identifies, assesses, monitors and reports on its compliance with all laws and rules relevant to the jurisdiction it is operating in. The IOSCO Paper identifies principles and specific issues that need to be taken into account. It is being released for consultation with relevant stakeholders, interested groups and the general public.

11. Enforcement and the Exchange of Information

11.1 Enforcement

An ongoing priority for IOSCO is to enhance the ability of its members to obtain timely and useful cooperation in the context of the cross-border aspects of their investigations into potential securities violations. As mentioned earlier in this communiqué IOSCO efforts are focused on ensuring that jurisdictions are able and willing to provide assistance in accordance with the co-operation standards set out in the IOSCO Principles as well as the benchmarks of the IOSCO MOU. Part of this current work includes analyzing the powers available to regulators or other authorities to freeze assets and repatriate overseas. This work includes developing a range of approaches that can deal with issues associated with freezing assets and recovering property.

11.2 Boiler Room Operations and Cold Calling

In a similar vein, IOSCO is also devoting significant resources to the issue of boiler rooms and cold calling in order to address trends in securities and futures violations. A task force has been established and is currently working on options to tackle boiler room operations that have been identified.

12. Investment Management

12.1 Governance for Collective Investment Schemes

As foreshadowed during the 2004 Annual Conference, IOSCO is working to establish broad principles for collective investment schemes (CIS) governance. At the core of this work is the objective of investor protection which in the context of this project aims to prevent misleading, manipulative and fraudulent practices by ensuring that CIS have strong internal governance mechanisms. The general goal is to enable investors to understand the risks that relate to investments in specific CIS. The public consultation period ends during May 2005 following which IOSCO will consider the submissions and comments it has received from the international financial community.

12.2 Market Timing

IOSCO recently published a Consultation Paper on this issue which outlines what steps regulators might need to undertake in order to address issues arising from market timing. It is recognized that market timing issues have the potential to adversely impact investors. Ultimately it is anticipated that this work will result in the development of international best practice standards. . The standards will among other

things attempt to deter detrimental market timing as well as outline the obligation of collective investment scheme operators. The consultation period ends during May 2005 following which the IOSCO will consider the submissions it has received and then proceed to issue a final Report.

12.3 Hedge Funds

In recognition of the growing significance of hedge funds as an investment vehicle option, IOSCO is currently undertaking a research project surveying different jurisdictions in order to assess the various regulatory approaches being taken. Based on the information collected, IOSCO will consider developing guidelines for hedge funds that would include clear disclosure principles.

13. The SRO Consultative Committee

The IOSCO SRO Consultative Committee (SROCC) which represents self regulating organizations and other securities and derivatives markets around the world has a number of important projects currently underway. Among them the Committee is developing a Model Code of Ethics intended to strengthen a culture of ethical behavior within the financial services industry.

14. Public Panels at this Annual Conference

The public panels at this year's Annual Conference focused on the following current regulatory issues:

14.1 Regulation of Credit Rating Agencies

This panel discussion took place at a very timely juncture following the recent release of the IOSCO Code of Conduct Fundamentals in December 2004. Panelists who included representatives from the leading rating agencies, held a robust discussion about how valuable the IOSCO Code of Conduct Fundamentals were in dealing with the issues relating to the regulation of credit rating agencies.

14.2 Challenges in Rapidly Developing Economies

Recent years have witnessed a remarkable growth rate in emerging economies. As more and more investors in these economies are exposed to the global financial market, it is important that issues of investor protection are not ignored. This Panel held a wide ranging discussion about this and other matters. There was general agreement among the panel that investor education was essential in enhancing investor protection.

14.3 Regulation of Financial Analysts

The role of financial analysts is recognized as increasingly important but the performance of some of them has been the subject of considerable criticism in some markets in recent years. The debate in this panel included consideration of the IOSCO Principles with the ensuing discussion ranging across a number of related issues as well as the possible need for greater regulation.

14.4 Rapidly Evolving Activities of Hedge Funds

In recent years, hedge funds have played an increasingly important role in investors' portfolios. The current debate has focused on whether greater regulation is necessary. This and a number of other related questions were comprehensively encapsulated in the presentation and the discussion that followed. The vigorous discussion demonstrated how many divisions still remained to be overcome in this area and on the question of whether more regulation was necessary.

15. Admission of New Members

IOSCO is pleased to announce that the following were admitted as new ordinary members:

Securities Commission of Armenia
Financial Services Commission of Gibraltar
Securities Commission of Montenegro

The following was admitted as a new associate member:

Dubai Financial Services Authority

In addition, the following were admitted as new affiliate members:

Association Française des Entreprises d'Investissements (AFEI)
Cairo and Alexandria Stock Exchange
Clearing, Settlement and Central Depository of Egypt
Montreal Exchange
Market Regulation Services (Canada)
National Association of Investment Banks of Brazil
National Association of Securities Market Participants of Russia (NAUFOR)
National Securities Depository of India

16. Future Annual Conference

IOSCO will hold its next Annual Conference in Hong Kong from 5-8 June 2006.

17. Future IOSCO Technical Committee Conference

The IOSCO Technical Committee is organizing a high-level conference to be held in Frankfurt, Germany on 5-6 October 2005. Invitees to the conference will include senior executives and market professionals from all sectors of the global financial services market as well as representatives from other international financial organizations and academics. The Frankfurt Conference will be organized around a series of high-profile panel discussions on topical and emerging issues in global financial services.

This follows on from the inaugural Technical Committee Conference which took place in New York in October 2004.

18. Further Information

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