

## IOSCO Principles – Executive Summary

The International Organization of Securities Commissions (IOSCO) is the global standard setter for securities regulation. IOSCO seeks to protect investors; ensure that markets are fair, efficient and transparent; and reduce systemic risk. IOSCO's core standards, the *Objectives and Principles of Securities Regulation* (the IOSCO Principles) and the related *Methodology for Assessing Implementation of the IOSCO Objectives and Principles of Securities Regulation* (the Methodology), help to achieve these objectives.

The IOSCO Principles are an international benchmark against which the effectiveness of securities regulatory regimes is assessed. They are IOSCO's main guidepost for developing and implementing internationally recognised standards of regulation, oversight and enforcement. The Methodology provides IOSCO's interpretation of the principles and its guidance on conducting assessments of the securities sector for the Financial Sector Assessment Programs (FSAPs) of the International Monetary Fund (IMF) and the World Bank. It addresses each principle and provides benchmarks to assess the level of implementation. IOSCO's Assessment Committee maintains the IOSCO Principles and Methodology and is responsible for assessing their implementation across the IOSCO membership of securities regulators.

### Scope and preconditions

The IOSCO Principles are a general framework that includes the regulation of: (i) securities and derivatives markets; (ii) market intermediaries; (iii) securities issuers; (iv) entities offering analytical or evaluative services; and (v) sales of interests in, and the management and operation of, collective investment schemes (CIS). For the IOSCO Principles to be effective, a jurisdiction must have an effective legal, commercial, accounting and auditing framework within which securities and derivatives markets can operate.

### Overview of the IOSCO Principles

For the purpose of this overview, the IOSCO Principles are grouped into the following blocks:

- **Principles related to the securities regulator (Principles 1–8)** set out the desirable attributes of a regulator, including:
  - clear and objectively stated responsibilities
  - operational independence and accountability in the exercise of its functions and powers
  - adequate powers and resources to perform its functions. These include the powers of licensing, supervision, inspection, investigation and enforcement
  - clear, consistent and transparent procedures and processes, including for public consultations and public disclosure of its policies
  - staff observing the highest professional standards of integrity and complying with clear guidance in matters of conduct, including confidentiality and procedural fairness
  - the ability to identify, assess, monitor, manage and reduce systemic risks based on clear responsibilities, systems and processes that permit the sharing of information

- a process allowing for a regular review of the perimeter of regulation, including an assessment of the effectiveness of regulations and whether the regulator's powers, structure and resources are sufficient to meet emerging risks
  - ensuring that conflicts of interest and misalignment of incentives among market participants are identified, avoided, eliminated, disclosed or otherwise managed
- **Principle 9 refers to self-regulatory organisations (SROs)** that have been given the power or responsibility to regulate and whose rules are subject to meaningful sanctions regarding any part of the securities market or industry. They must be subject to the regulator's oversight and observe standards of fairness and confidentiality when exercising their delegated responsibilities.
  - **Principles related to enforcement (Principles 10–12)** refer to the nature and extent of the regulator's powers and its ability to use them effectively and credibly.
  - **Principles related to cooperation (Principles 13–15)** address cooperation and public and non-public information-sharing amongst regulators and their domestic and foreign counterparts for investigations, supervision, enforcement and other regulatory purposes.
  - **Principles related to securities issuers (Principles 16–18)** relate to the information that they should disclose to investors. Principle 16 requires full, timely and accurate disclosures of financial and non-financial information that is material to investors' decisions. Principles 17 and 18 require the fair and equitable treatment of investors and the use of high-quality and internationally accepted accounting standards when preparing financial statements.
  - **Principles related to auditors (Principles 19–21)** require them to be subject to effective oversight, independent of the entities that they audit and to conduct audits of high and internationally acceptable quality.
  - **Principles related to credit rating agencies (CRAs) and other information service providers (Principles 22 and 23)** expect them to be subject to adequate levels of oversight. CRAs whose ratings are used for regulatory purposes must be subject to registration and ongoing supervision.
  - **Principles related to CIS and to hedge funds (Principles 24–28)** deal with their regulation and oversight. CIS should be subject to standards for eligibility, governance, organisation, operational conduct, segregation and protection of clients' assets; disclosures to investors; proper asset valuation; and the pricing and the redemption of a CIS's units. Hedge funds are expected to be subject to appropriate oversight.
  - **Principles relating to market intermediaries<sup>1</sup> (Principles 29–32)** require them to: (i) be subject to minimum entry standards; (ii) meet capital and liquidity requirements commensurate with their risks; and (iii) be managed and organised to ensure adequate protection of clients and proper management of risk. They are also required to have procedures to limit loss to investors and contain systemic risk in case of failure.
  - **Principles related to secondary and other markets (Principles 33–37)** require these markets to be subject to regulatory authorisation and oversight. Regulation and ongoing supervision should ensure that the integrity and transparency of trading is maintained through rules that are fair and equitable for all market participants. Regulation should also be designed to promote transparency of trading, to detect and deter unfair trading practices, and ensure the management of large exposures, default risk and market disruption.

<sup>1</sup> The category includes intermediaries that manage portfolios, execute orders and deal or distribute securities.

- **Principle 38, related to clearing and settlement**, requires effective regulation and oversight of securities settlement systems, central securities depositories, trade repositories and central counterparties so that they are fair, effective and efficient and that they reduce systemic risk.

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