

## **Final Communiqué of the XXXI 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 Hong Kong from 5-8 June 2006, on the occasion of the 31<sup>st</sup> Annual Conference of the International Organization of Securities Commissions (IOSCO).

This year's conference, which attracted more than 600 delegates from around the world and included representatives from more than 100 countries, was hosted by the Securities and Futures Commission of Hong Kong.

The conference was officially opened by the Honorable Rafael S Y Hui, Acting Chief Executive of the Hong Kong Special Administrative Region, whose presence along with other high level dignitaries indicated a strong level of support for the ongoing work of regulators of global capital and securities markets.

In his opening remarks to the conference, Mr. Hui said Hong Kong was deeply honoured to host the event. He also paid tribute to IOSCO by acknowledging that the organization "has been instrumental in raising the standards of securities regulation".

The Chairman of the Securities & Futures Commission of Hong Kong, Mr. Martin Wheatley, confirmed the importance of this year's event by stating that: "As participants we had the opportunity to hear differing perspectives of market experts and regulators on issues that are of current interest. The subsequent debate on the options we face in addressing these issues confirmed what a challenging era securities regulators currently find themselves in".

The Chairperson of the IOSCO Executive Committee, Ms. Jane Diplock, revealed that during the previous year the organization had made substantial progress in further promoting the cause of international cooperation among securities regulators via the *IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information* (IOSCO MoU). She noted: "The IOSCO vision is for all securities regulators to engage across borders for regulatory oversight and enforcement in a seamless, effective manner".

The Chairman of the IOSCO Technical Committee, Mr. Michel Prada, emphasized the critical nature of the organization's current activities: "As a forum for coordinating efforts to achieve commonly agreed principles and internationally accepted standards as well as sharing information among securities regulators, the activities being undertaken by IOSCO at the present time are of prime importance".

The Chairman of the IOSCO Emerging Markets Committee, Mr. Dogan Cansizlar, supported this view and added that: “For emerging markets, it remains essential that we undertake reforms in line with global standards. In this respect, IOSCO initiatives and the provision of targeted technical assistance play a crucial role”.

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

### **IOSCO Strategic Direction**

Since the formal adoption of a range of operational priorities during last year’s conference, IOSCO has made great strides to further strengthen the effectiveness of the organization. The operational priorities that were adopted last year renewed the focus on common efforts and on coordinated actions. The stated objective is to maintain the role of IOSCO as the international standard setter for securities regulation by improving enforcement related cross-border cooperation and fully implementing the *Objectives and Principles of Securities Regulation* (IOSCO Principles).

The strategy also involves a greater emphasis on the 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.

In its first annual review of the strategic direction resolutions since they were adopted last year, members expressed approval with the progress achieved to date. Among other measures of advancement, it was noted that there are currently 34 members who have signed the IOSCO MoU. New signatories which were welcomed during the Conference included the Dubai Financial Services Authority, the Financial Supervisory Authority of Denmark, the Israel Securities Authority and the Securities and Exchange Commission of Nigeria.

An additional 9 members have expressed their commitment in accordance with the Appendix B requirements to the IOSCO MoU. The most recent addition to the Appendix B listing is the Securities & Exchange Commission of Thailand. During the Conference, members reviewed the progress that each of these members had made in their attempts to become full signatories. The Conference resolved to hold annual reviews of each member currently listed in accordance with Appendix B in order to monitor developments. It was noted that the Israel Securities Authority is the first member to successfully remove all legal obstacles and make this transition.

Members reaffirmed their view that a more comprehensive and systematic implementation of the IOSCO Principles as well as an expanded network within the IOSCO MoU, would deliver significant benefits as the enforcement activities of members become stronger and national markets are made more attractive to investors.

Members also took the opportunity to confirm the importance of the ongoing program of training and technical assistance in pursuance of the strategic direction objectives. These programs which have been developed and made available by the General Secretariat have

occurred in all regions of the world and to date provided positive benefits particularly with the participation of expert staff from members. It is anticipated that these training and technical assistance programs will continue to play a valuable role in the years ahead.

### **Cross-border cooperation in the freezing of assets**

IOSCO adopted a new resolution that encourages members to examine the legal framework under which they operate and to enable the freezing of assets derived from cross-border securities and derivatives violations. In this way, those who break the laws of the securities sector will be unable to benefit from any gains made as a result of their illegal actions.

The resolution was adopted in response to the growing challenge posed by the increase in cross-border fraudulent and illicit activity and proceeds of fraud that cross borders, along with the general absence of powers to freeze assets internationally. In order to deprive law breakers of the proceeds of their misconduct, IOSCO encourages regulators to examine their domestic laws in order to identify mechanisms that can be developed to assist in freezing assets.

### **Dialogue with certain jurisdictions**

IOSCO in consultation with the FSF, has been engaged in a confidential dialogue with certain jurisdictions with which specific co-operation issues have been experienced. Particular attention is being given to those jurisdictions that play an important part in the international financial system. The objective of the work is to assist each of the identified jurisdictions to make genuine improvements in the level of co-operation they are able to offer their international counterparts in relation to information sharing. IOSCO is pleased with the progress achieved to date in consultations with these jurisdictions and as a result will expand the group of jurisdictions with which it is dealing.

### **Task Force on Corporate Governance**

In collaboration with the Organisation for Economic Cooperation & Development (OECD), IOSCO is examining how different jurisdictions address important issues relating to the corporate governance of companies on stock exchanges. In particular, the Task Force will assess how different jurisdictions ensure that the boards of directors of listed companies can express independent judgment and how the interests of minority shareholders are protected.

The Task Force is being chaired by the Comisión Nacional del Mercado de Valores (CNMV) of Spain and the Australian Securities & Investments Commission (ASIC).

### **Task Force on Non-Audit Services**

This Task Force is analyzing a range of issues related to quality audits and auditor independence. There is also a focus on the issue of non-audit services offered to publicly listed audit clients and the potential impact of these services on auditor independence. The objective is to recommend reforms that might facilitate cross-border convergence of best practices. It is anticipated that a report on these issues will be released towards the end of 2006.

This Task Force is chaired by the Australian Securities & Investments Commission (ASIC).

### **Task Force on Credit Rating Agencies**

IOSCO has reconstituted a Task Force to review the codes of conduct that have been released by Credit Rating Agencies (CRAs) to determine whether CRAs consistently choose to “explain” (rather than comply) with specific provisions of the IOSCO CRA Code. The review will assist in assessing whether any aspects of the IOSCO CRA Code need to be modified to better reflect market realities or better explained to help ensure more consistent compliance.

### **PIOB**

During the Conference, delegates were privileged to hear from the Chairman of the Public Interest Oversight Board (PIOB), Professor Stavros Thomadakis who spoke about the work of this body.

The PIOB is responsible for overseeing the public interest activities of the International Federation of Accountants (IFAC). The primary focus of the PIOB is the work of the independent standard-setting boards responsible for developing professional standards in the areas of audit and assurance, ethics and education. The PIOB also oversees the work of the IFAC Compliance Advisory Panel, a body established to monitor and assess how well IFAC member bodies are complying with their membership obligations, including implementation and the application of above mentioned professional standards.

Professor Thomadakis noted “there are two reasons why it is important that there be a PIOB and that we do the best job possible. First, independent oversight of the process by which these standards are created is an important contributor to the restoration of public confidence in the quality of financial reporting flowing to the capital markets. Second, increased adoption and application of these international standards around the world will help to promote national and international financial stability”.

### **External Relations**

IOSCO re-affirms its commitment to working closely with other international financial institutions and groupings including the Basel Committee on Banking Supervision (BCBS), International Association of Insurance Supervisors (IAIS), Bank for International Settlements (BIS), International Monetary Fund and World Bank. Recently, IOSCO has also held discussions with and the Islamic Capital Markets Board. Maintaining such a network of active engagement enhances the coordination of global initiatives and results in superior outcomes in the arena of global securities regulation.

In a similar vein, IOSCO also takes this opportunity to reaffirm the value of its ongoing involvement in the Financial Stability Forum (FSF) which meets regularly to assess risks and vulnerabilities in the international financial system. For IOSCO, the FSF serves an especially important function in the contribution it makes to strengthen resilience, increase transparency and reinforce governance standards.

In accordance with the IOSCO Strategic Direction, the organization also remains strongly committed to continuing an active policy of engagement and consultation with industry associations representing market participants, providers and investors.

### **Accounting, Auditing and Disclosure**

- ***International Financial Reporting Standards Database*** In October 2005, IOSCO approved a Statement of Principle for the development of a database in order to facilitate the sharing by securities regulators of regulatory decisions relating to the enforcement of International Financial Reporting Standards (IFRS). Such a database of information will provide a useful reference source for regulators on IFRS decisions and will facilitate coordination and convergence.

IOSCO anticipates that the database will be fully operational during the second half of 2006. IOSCO is liaising with the Committee of European Securities Regulators (CESR) which has developed and implemented a similar database for use in the European Union.

- ***International Debt Disclosure Principles*** IOSCO is currently considering comments received on the public consultation for the disclosure principles for documents used by foreign issuers in cross-border public offerings and listings of corporate debt securities. IOSCO believes that the development of such Principles is especially relevant at this time given the increased volume of public offerings and listings of debt securities in international capital markets as well as the increased participation of retail investors in those markets.

- ***Special Purpose Entities (SPEs)*** IOSCO is currently in the process of exploring whether the use of SPEs warrants additional disclosure by issuers. This incorporates current accounting and non-financial statement disclosure requirements applicable to the use of SPEs along with the level of audit assurance required for this information.

### **Regulation of Secondary Markets**

- ***Exchange Evolution*** In March 2006, IOSCO issued a public consultation paper dealing with regulatory issues resulting from exchange evolution. This follows the trend of recent years whereby major exchanges around the world have converted into for-profit companies with broader shareholder bases. For securities regulators, it is an opportune time to examine the significant regulatory issues arising as a result of these changes in exchange ownership and their business objectives.

Submissions received as a result of the public consultation process are currently being considered. IOSCO anticipates that a final report outlining conclusions and recommendations will be released during the final quarter of 2006.

- ***Bond Markets*** IOSCO continues to actively monitor developments in the bond markets with a view to ensuring adequate transparency in bond market trading.

## **Regulation of Market Intermediaries**

- ***Compliance Function at Market Intermediaries*** IOSCO has been encouraged by the positive response it has received from the financial services industry following the release of its paper on this issue during March 2006. The principles being promoted by IOSCO are based on the concept that compliance with securities laws, regulations and conduct of business rules is part of the essential foundation of sound and orderly markets. It is also a key element of investor protection which is a fundamental IOSCO priority. Accordingly, IOSCO has set forth the principles that should be considered by all market intermediaries and their regulators in order to increase the effectiveness of the compliance function at market intermediaries.

- ***Conflicts in Securities Offerings*** IOSCO is currently reviewing how firms engaged in a securities offering manage the flow of information in their possession to address any conflicts of interest. Among other aspects, consideration is being given to the conflicts of interest that arise, and the mechanisms that are used to deal with such conflicts. It is anticipated that a draft discussion paper on these issues will be released for public consultation during the final quarter of 2006.

- ***Capital Adequacy Requirements*** IOSCO is also currently carrying out work to develop guidance for regulators in emerging market economies in relation to capital adequacy requirements for financial intermediaries.

## **Enforcement and the Exchange of Information**

- ***“Boiler Room Activity”*** IOSCO continues to monitor “boiler room” activity around the world and has recently established an ad hoc group to carry out additional work on this issue. It aims to provide guidance on issues facing regulators in combating boiler room scams.

## **Investment Management**

- ***Governance for Collective Investment Schemes*** During 2005, IOSCO released “*Examination of Governance for Collective Investment Schemes (CIS)*” as a public consultation document. After defining the CIS governance as a “*framework for the organization and operation of CIS that seeks to ensure that CIS are organized and operated efficiently and exclusively in the interests of CIS investors, and not in the interests of CIS insiders*”, the paper identified a primary general principle of independent review and oversight of CIS operators to be applied in all markets, regardless of the structural form of the CIS. In the course of the consultation process, numerous submissions were received from relevant stakeholders and other interested groups. The final report takes into account some of these remarks as well as the latest updating of CIS governance frameworks in several markets.

A second document entitled “*Principles of Governance for Collective Investment Schemes: Independence Criteria, Empowerment Conditions and Functions to be performed by the Independent Oversight Entities*” has been approved for public consultation. This document is the follow-up work foreshadowed in the previous document. It covers key aspects of CIS governance such as the concept of independence (definition and key features), the empowerment conditions (powers of the Independent Oversight Entities) and the functions to be performed by the Independent Oversight Entities.

- **Survey** During this meeting, IOSCO considered the results of the comprehensive survey which has recently been carried out in order to assess the state of development of CIS, including the related regulatory framework in the emerging markets of the world. The survey, which represented one of the most significant ventures of this type, resulted in quantitative and qualitative assessments of the growth and development of the mutual fund industry in emerging markets and proved extraordinarily helpful to the organization in identifying trends and other relevant issues in these markets.

- **Soft Commissions** Work has only recently commenced to analyze soft commission arrangements across different jurisdictions. Although not all jurisdictions currently regulate soft commission arrangements, there is a strong perception of the risks associated with such arrangements. The amount of money involved in soft commission arrangements can be substantial and the potential for conflicts of interest for CIS operators is readily evident. It is against this background that IOSCO has decided to launch a first survey in this field.

- **Hedge Funds** Early policy work by IOSCO in this area has confirmed few jurisdictions report any significant “retailization” of hedge funds at this point of time. The ongoing work which is being carried out is exploring how hedge funds can ensure there exist clear, concise and effective disclosure of the features of hedge funds particularly as they relate to fees, risks, experience of fund managers, internal controls, performance disclosures and conflicts of interest.

In addition, and given the importance of valuation and the challenges presented by the assets and liabilities carried by hedge funds, IOSCO has decided that a set of principles in terms of valuation and administration may prove of value to the hedge fund industry. The work of IOSCO in this field involves consultations with the industry.

### **The SRO Consultative Committee**

The IOSCO SRO Consultative Committee (SROCC) which represents self regulating organizations and other securities and derivatives markets around the world met in Hong Kong this week. The Committee has finalized and released a Model Code of Ethics which aims to strengthen a culture of ethical behaviour within the financial services industry.

## **Public Panels**

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

### **International Financial Reporting Standards**

The arrival of IFRS promised a new era of high quality international standards and a better way for investors to assess their investment decisions. In the course of their discussion, the Panel confirmed that within a short time since the adoption of the IFRS, the debate over their implementation has been intense. Although expectations have been high, it was agreed that managing these expectations will play a role in their ultimate success.

### **Hedge Funds**

The hedge funds sector has recorded spectacular growth during recent years but this expansion has been accompanied by increasing concerns about the risks associated with their activities. This Panel addressed some of the current trends and regulatory issues associated with hedge fund development. It was also extremely useful in outlining the opportunities, challenges and commercial dynamics facing this financial sector.

### **Bond Markets**

Regulators across the world have taken different directions in attempting to improve and harmonize securities disclosure. In one of the liveliest discussions at the Conference, this Panel was helpful in identifying the exceptional challenges that are to be found in the bond markets sector, particularly in the pursuit of greater transparency and the issues to be faced by regulators within that process.

### **Implementation of IOSCO Principles and the IOSCO MoU in Emerging Markets**

The comprehensive set of international principles of securities regulation which have been introduced by IOSCO and which serve as a benchmark for cross-border enforcement related cooperation and exchange of information were the focus of attention at this discussion. The Panel focused on the specific challenges encountered in emerging markets and implementation efforts. Interestingly, it was concluded that despite the challenges being faced, delivering better regulatory practices in these markets holds numerous benefits and makes these markets more attractive to investors.

In a related development, it was noted that that the CONSOB of Italy as represented by Mr. Carlo Biancheri has been appointed as Chair of the IOSCO Implementation Task Force. The Australian Securities & Investments Commission as represented by Mr. Greg Tanzer has been appointed as Deputy Chair.

### **IOSCO Elections**

A number of elections took place during this Conference. Among these:

#### **- Technical Committee**



Mr. Michel Prada, Chairman of the Autorite des marches financiers of France was re-elected as Chairman of the Technical Committee while Mr. Roel Campos, Commissioner of the Securities & Exchange Commission of the USA was re-elected as Deputy Chair of the Technical Committee.

The Technical Committee comprises fifteen ordinary and/or associate members that regulate some of the world's larger, more developed and internationalized markets. A key objective of the Committee is to develop practical responses to major regulatory issues relating to the operation of securities markets and to establish principles and set standards.

#### **- Emerging Markets Committee (EMC)**

Mr. M. Damodaran of the Securities & Exchange Board of India was elected as Chairman of the Emerging Markets Committee while Mr. Bassam Saket, Chairman of the Jordan Securities Commission was re-elected as Deputy Chair.

The EMC is composed of ordinary members from the world's emerging markets. It has as a core objective to develop practical responses to major regulatory issues relating to the operation of securities markets in emerging markets, to establish principles and set standards for these markets, to prepare training programs for members and to generally facilitate the transfer of regulatory expertise.

In accepting the position, Mr. Damodaran paid tribute to the outgoing Chairman of the Emerging Markets Committee, Mr Dogan Cansizlar, and Chairman of the Capital Markets Board of Turkey who had held this position since 2002. Mr Damodaran said: "During his time as Chair of the EMC, Mr. Cansizlar has helped to facilitate the positive development of the regulatory framework governing emerging markets. On behalf of IOSCO, I place on record our thanks for his outstanding contribution to the organization".

#### **- Executive Committee**

Elections also took place for a new Executive Committee. The Executive Committee is composed of nineteen ordinary members and it represents the main policy setting and decision making body of the organization. Following the elections, the Executive Committee is now composed of the following members:

- Mr. Michel Prada, Chairman of the Autorité des marches financiers, of France and Chairman of the IOSCO Technical Committee.
- Mr. M. Damodaran, Chairman of the Securities & Exchange Board of India and Chairman of the IOSCO Emerging Markets Committee.

The Chairmen of the four Regional Committees:

- Mr. Musa Al-Faki, Director General of the Securities and Exchange Commission of Nigeria and Chairman of the IOSCO Africa & Middle East Regional Committee (AMERC);

- Mr. Thirachai Phuvanatanarubala, Secretary General of the Securities & Exchange Commission of Thailand and Chairman of the IOSCO Asia Pacific Regional Committee (APRC);
- Mr. Eddy Wymeersch, Chairman of the Banking Finance and Insurance Commission of Belgium and Chairman of the IOSCO European Regional Committee (ERC);
- Mr. Narciso Munoz, Chairman of the Comision Nacional de Valores of Argentina and Chairman of the Inter-American Regional Committee (IARC).

The nine members elected by the Presidents' Committee:

- Australian Securities & Investments Commission;
- China Securities Regulatory Commission;
- Commissione Nazionale per le Societa e la Borsa of Italy;
- Financial Services Agency of Japan;
- Ontario Securities Commission;
- Securities & Exchange Commission of Poland
- Financial Services Board of South Africa;
- Financial Services Authority of the United Kingdom;
- Securities & Exchange Commission of the United States of America.

The four members elected by the Regional Committees are:

- Jordan Securities Commission;
- New Zealand Securities Commission;
- Comision Nacional del Mercado de Valores of Spain; and
- Comissao de Valores Mobiliarios of Brazil.

Ms Jane Diplock, Chairperson of the New Zealand Securities Commission, was re-elected to the position of Chairperson of the Executive Committee. Mr Shang Fulin, Chairman of the China Securities Regulatory Commission was elected to take up the position of Deputy Chair of the Executive Committee.

All these appointments and elected positions are for a two year term.

### **Admission of New Members**

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

#### **- New Associate Member:**

Forward Markets Commission of India.

#### **- New affiliate members:**

Brazilian Association of Financial Institutions;  
CFA Institute of the United Kingdom

Dubai International Financial Exchange  
Doha Securities Market of Qatar  
London Stock Exchange

### **Future Conferences**

IOSCO will hold its next Annual Conference in Mumbai, India during April 2007.

From 19-21 September 2006, the Emerging Markets Committee will meet in Shanghai, China where members will review progress on the implementation of the IOSCO Principles and the challenges related to securities regulation in emerging economies.

The IOSCO Technical Committee is organizing a high-level conference to be held in London, UK from 15-17 November 2006. 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 London Conference will be organized around a series of high-profile panel discussions on topical and emerging issues in global financial services.

### **Further Information**

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