

GLOBAL INSIGHTS



“**ICSA’s practical contribution extends into the heart of the efficient operation and sound regulation of domestic financial markets, as its 19 members regularly share information on market developments, regulation and industry best practices.**”

DAVID LYNCH

Chairman

 **ICSA** International Council of Securities Associations

The International Council of Securities Associations (ICSA)

THE INTERNATIONAL COUNCIL OF SECURITIES ASSOCIATIONS (ICSA) CONTRIBUTION TO GLOBAL CAPITAL MARKETS

A firm that brokers a share trade on BSE in Mumbai, or manages the issuance of a corporate bond in New York or writes a derivative for a fund manager in London, almost certainly will be subject to domestic regulation that has a strong connection to the work of the global standard setting bodies.

These bodies include the International Organization of Securities Commissions (IOSCO), the Basel Committee on Banking Supervision (BCBS), Financial Action Task Force (FATF) and the Organisation for Economic Cooperation and Development (OECD), with the Financial Stability Board (FSB) serving as a coordinating body. As explained below, they collectively have a great influence on the rules of the global financial system, and in turn national financial system policy.

The securities industry in India, like its counterparts in Australia and elsewhere, are stakeholders in this process and need assurance that the global standards help to promote confidence in financial markets and assist the efficient conduct of business.

A benefit of standards developed by global bodies should be well-coordinated regulatory practices that support an efficient industry, especially for cross-border financial transactions. In practice, this has not always been achieved. For instance,

national implementation of global financial crisis (GFC) related reforms generated both differently paced implementation timetables and problematical divergence in the ways they are being applied.

Moreover, there has been a notable uptick in the prevalence of harmful extraterritorial regulation. For example, decisions made in Brussels now can have a direct impact on how financial business gets done in distant regions, including Asia. Recognising the scale of the problem, it was a priority of Japan’s G20 Presidency in 2019 to address the issue of financial market fragmentation, including through regulatory and supervisory cooperation.

Successfully operating a securities firm is difficult enough without having to navigate international regulatory differences, while industry associations are often stretched by implementing initiatives to further market development and respond to significant national regulatory reform programs. As outlined below, in the current environment, there is simply too much happening through the international standard setters for all but large-scale industry bodies to cope with on a consistently effective basis.

An appreciation of this backdrop is helpful to understanding the role of the International Council of Securities Associations (ICSA) and its value to present day markets. ICSA was established

in 1988 by securities associations from Asia, North America, and Europe in response to the rapid globalisation of finance. It provides a forum to foster development of common positions on policy and regulation that will promote safer and more integrated capital markets.

BBF is a key member of ICSA, serving as host of the 2015 Annual AGM in Mumbai and currently chairs its Emerging Markets Committee. BBF will host the 2020 Asia Securities Forum in Jaipur in November, which will incorporate ICSA’s mid-year meeting.

ICSA’s Role in a Changing Industry Environment

The operational characteristics of securities markets have evolved markedly since ICSA’s formation and the nature of this change heightens its importance to the industry.

For example, adoption of new technologies has been pervasive and is evident, for example, in the speed at which securities are now traded. The modernisation of market infrastructure is continuing, with the potential of distributed ledger technology being explored and applied, for instance, by the Australian Securities Exchange to cash equities settlement. Managing the implications of technology change to optimally support the further development of securities markets is a challenge for national industry associations,

but it is one that is shared across all jurisdictions.

G20 led reforms to OTC derivatives narrowed the distinction between OTC and exchange markets and increased the commonality of issues in this area for industry associations. In addition, the impact of reforms to financial benchmarks, driven primarily by problems encountered with LIBOR, has major flow-on effects for securities and derivatives markets.

Changes such as these have multijurisdictional effects and, taken together with increased instances of extraterritorial regulation and harmful market fragmentation, highlight the greater importance of effective advocacy and representation for the global financial markets industry.

Therefore, the environment within which financial markets policy is set has evolved in ways that increase the utility of ICSA's dialogue with the global standard setters. However, it is worth emphasising that ICSA's practical contribution extends into the heart of the efficient operation and sound regulation of domestic financial markets, as its 19 members regularly share information on market developments, regulation and industry best practices.

A Deeper Look at IOSCO and FSB

To further explore ICSA's value to the securities industry globally, it is useful to focus on IOSCO and FSB, as two of the international organisations ICSA meets with regularly to advance its mission.

IOSCO was established in 1983, bringing together the world's securities regulators. IOSCO develops, implements, and promotes adherence to globally recognised standards for securities regulation. It works intensively with the G20 and FSB on the global regulatory reform agenda.

In January 2020, IOSCO's Board published its Annual Work Program, which contains six specific priority areas:

- Crypto-assets
- Artificial Intelligence and Machine Learning
- Market Fragmentation
- Passive Investing and Index Providers
- Retail Distribution and Digitalisation
- Rising levels of corporate debt and leveraged loans, and potential risks in capital markets

IOSCO's work program incorporates other important workstreams being carried out by its eight Policy Committees that cover, respectively:

1. Issuer Accounting, Auditing and Disclosure
2. Regulation of Secondary Markets
3. Regulation of Market Intermediaries;
4. Enforcement and the Exchange of Information
5. Investment Management
6. Credit Rating Agencies
7. Commodities Derivatives Markets
8. Retail Investors

Other important workstreams include those related to asset management, particularly in the areas of liquidity risk management and leverage analysis of the ETF marketplace.

Turning now to the FSB, it is the international body that monitors and makes recommendations about the global financial system. FSB was established in April 2009 in response to the Global Financial Crisis, and is headquartered at the Bank for International Settlements in Basel.

FSB brings together national authorities responsible for financial stability in 24 countries and jurisdictions, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. Amongst other things, FSB:

- Assesses vulnerabilities affecting the global financial system and identifies, and reviews regulatory and supervisory actions needed to address these vulnerabilities.
- Promotes coordination and information exchange among authorities.
- Monitors and advises on market developments and their implications for policy.
- Undertakes joint strategic reviews of the international standard-setting bodies and coordinates their respective policy development work.
- Promotes member jurisdictions' implementation of agreed commitments through monitoring of implementation, peer review, and disclosure.

On 17 December 2019, FSB published its work programme for 2020. FSB will continue its work to finalise and operationalise the remaining elements of post-crisis reforms; monitor and assess the

implementation of reforms; and evaluate their effects in order to ensure that reforms work as intended.

Important specific FSB work programme items, which include key deliverables to the G20 Saudi Arabian Presidency, are:

- FinTech: Complementing the recent report on BigTech in finance, the FSB will report on the perspective of emerging market and developing economies on this topic. The FSB will also take stock of the range of practices on the use of RegTech and SupTech.
- Global stablecoins: FSB will issue a public consultation on stablecoins in April.
- Cross-border payment systems: In coordination with the Committee on Payments and Market Infrastructures and others, FSB will develop and deliver to the G20 a roadmap for how to enhance global cross-border payments.
- Interest rate benchmarks: Transition away from LIBOR by end-2021 requires significant and sustained

effort from firms across many jurisdictions. FSB will take stock of the implementation of benchmark reforms and report on remaining challenges.

- Ongoing evaluation work: FSB will take forward its multi-year programme for evaluating the effects of reforms under its Evaluation Framework. In 2020, this includes the completion of an evaluation of the effects of "Too Big to Fail" reforms for banks and the launch of an evaluation of the effects of money market fund reforms.

Concluding Comments

ICSA appreciates the opportunity to regularly meet with IOSCO, FSB and other bodies, as this helps markets to remain fully informed and actively contribute to the development of global policy and standards. The work programs of FSB and IOSCO suggest that 2020 will be a busy year in this regard.

Of course, this will not be the limit of ICSA's work. For instance, the confluence of competition

between trading venues and best execution regulation has created new complications in the cost effective provision of market data in many jurisdictions and ICSA has an active work program in this area. The consequences of an aging population for the securities industry is another area of current interest to members.

ICSA's mission to promote and encourage harmonisation, supported by actions to help ensure high standards of integrity and fair dealing in the international capital market, continues to provide a positive platform for the ongoing development of the securities industry in all jurisdictions.

David Lynch is Chief Executive of the Australian Financial Markets Association (AFMA), which is the industry body for participants in Australia's financial markets. AFMA's principal activities are policy advocacy and promotion of professional and efficient markets including through the provision of market standards and accreditation of individuals employed in the industry.