Global and Local Securities Industry Challenges Entwined

by David Lynch, Chairman
March 2021

The members of the International Council of Securities Associations (ICSA) originate from Asia, the Americas, and Europe.

ICSA provides a forum to foster development of common positions on policy and regulation that will promote safer and more integrated capital markets. Its role is especially important at a time of rapid market change, including the adoption of new product and service technologies, when information sharing and thought leadership by member associations across multiple jurisdictions can benefit the development of markets in individual jurisdiction and the global industry.

The Impact of COVID-19

Looking back over the past year, the outbreak of the COVID-19 pandemic was the consistent dominant feature of the global economic, financial and social landscape. Managing the implications of COVID-19 has been a challenge for national industry associations but, given the global nature of the pandemic, it was a challenge that was shared across all jurisdictions.

The first priority was to ensure that the financial markets remained open and capable of operating effectively. In many jurisdictions, this required the designation of financial markets as essential services. ICSA was a valuable focal point for the sharing of experiences across the global markets and it issued a well-received public statement highlighting the role of financial markets as critical infrastructure for the global economy by serving the capital raising for governments and companies and the investment risk management needs of both retail and institutional investors.

ICSA welcomed IOSCO's actions to ensure that capital markets continued to function throughout this difficult period in an open and orderly manner. ICSA also commended the work by the Financial Stability Board (FSB), in conjunction with international standard setting bodies, to coordinate action to maintain global financial stability, to keep markets open and functioning, and preserve the financial system's capacity to finance growth. For instance, the FSB's public statement on 2 April 2020 was widely appreciated because it specifically drew attention to the vital role of third-party providers who deliver core services to financial entities. The FSB followed this up by engaging with national and local authorities to ensure this important feature was widely understood.

Securities companies, market infrastructure providers and financial institutions more generally faced increased operational risks, as their staff were dispersed, working from the office, home and business continuity plan (BCP) sites. There was a particular focus on the heightened chance of technology failures and cyber-attacks. Financial market systems typically stood the test and worked well in a challenging situation.

The considered response by many regulators to practical issues across a range of areas, including tax and anti-money laundering law as well as securities regulation, was a significant contribution and this pragmatism did not compromise the achievement of core regulatory objectives. The adjustment of timeframes by authorities and regulators for policy consultations and implementation of agreed reforms was helpful in freeing up the operational capacity of securities firms to respond to COVID-19.

Financial markets remained open and operated effectively, if sometimes under stress in difficult conditions as the impact from COVID-19 was felt. There was initially much uncertainty about the scale and duration of the economic impact, about the virus itself and the effectiveness of measures to contain it. Nonetheless, investors were able to trade and manage risk, governments were able to borrow at record levels, and companies were able to raise equity to support their business.

In summary, the COVID-19 situation has been one where effective engagement, dialogue and cooperation between industry participants and government authorities has been vital. Effective communication and cooperation were a feature of this relationship across a range of jurisdictions and complemented ICSA's established relationship with the global standard setters; most notably IOSCO.

Global Industry Development Priorities

Looking to the future, COVID-19 recovery will require well-targeted and proportionate regulation to support economic growth and development. In this context, ICSA surveyed its member associations to obtain insights into their main priorities as they entered 2021. It is evident that all member associations have to deal with a large agenda of policy and regulatory matters.

The most common priorities identified by member associations were sustainable finance and transition of benchmark interest rates to more robust arrangements, with interest evenly spread across ICSA regional groupings. While the specific nature of the issues that present in each jurisdiction vary, it is clear (and not surprising) that these are global issues with many common features across jurisdictions. Regulatory fragmentation was another item that received significant mention, though the origin of the concern varied and reflected specific jurisdiction issues (like Brexit).

Securities market development, both equities and corporate bonds, is an area of activity for many members associations, with the specific focus of this work reflecting jurisdictional needs. Some members also cited specific matters, like financial research and pension systems, that relate to the performance and development of securities markets.

An example of an issue that is of collective concern to ICSA members is the increasing cost of market data, which will indirectly affect market development. In February 2021, ICSA and the Global Financial Markets Association joined to make a submission responding to an IOSCO on the equities market data, which highlighted the need for action to address the harmful impact of rapidly accelerating cost of market data in many jurisdictions.

While most priority issues for industry associations are not a direct consequence of COVID-19, many are complicated by the impact of the pandemic. The two most prominent specific COVID-19 related items were work-from-home, which is operational, and a more general class of issues concerning market functionality and the effects of exceptional monetary policy measures.

IOSCO's New Work Program

The principal priorities for ICSA member associations are all reflected in IOSCO's new work program for 2021-22, which it released on 26 February 2021. This situation provides the basis for a solid and productive engagement by ICSA with IOSCO over the next year.

In relation to sustainability, IOSCO plans to re-double its effort to contribute to the urgent goal of improving the completeness, consistency, and comparability of sustainability reporting under the stewardship of its Sustainable Finance Task Force. The Task Force will continue to progress on other important areas covering asset managers and greenwashing, ESG ratings and ESG data providers.

IOSCO will also continue its efforts on the six priorities it identified for 2020, all of which will continue to be priorities in 2021 and 2022 including:

- Corporate debt and leveraged finance,
- Crypto assets
- Market fragmentation in securities and derivatives markets,
- Artificial intelligence and machine learning,
- Passive investing and index providers, and
- Retail distribution and digitalisation.

IOSCO's work program includes a new priority concerning the risks exacerbated by the pandemic, including misconduct risks, fraud, and operational resilience. These risks prevail in some form in all jurisdictions and so are obvious points of interest to ICSA and its members associations.

IOSCO's Retail Market Conduct Taskforce published a report in December 2020 on initial findings and observations about the impact of COVID-19 on retail conduct issues and will focus on the misconduct and fraud items.

The challenge of ensuring operation resilience has been the subject of considerable thought and work by the industry, especially in risks from remote working relationships and cyber risks. ICSA's Emerging Markets Committee produced a Report on Financial Market Responses to COVID-19 that considered some of these issues.

Meanwhile, regulators have been active, undertaking work to review the impacts of COVID-19 on securities markets. For example, the Australian Securities and Investments Commission (ASIC) reported on operational approaches by financial market participants that it observed during the pandemic and concluded that the Australian financial markets remained resilient during the pandemic, with market intermediaries generally adapting well to the changed work environment. Nonetheless, there is work to do to ensure the system continues to perform well, including back-testing tactical solutions and changes made under pressure to ensure they are robust going forward.

IOSCO has observed that while financial markets – supported by exceptional measures taken by authorities – generally proved resilient, the COVID-19 induced market stresses in March and April 2020 underscored the interconnectedness of capital markets with the wider financial system and brought into focus potential vulnerabilities in non-bank financial intermediation activities. Therefore, financial stability and systemic risks of NBFI activities are another new priority focus for IOSCO.

Concluding Comments

The global securities markets industry passed a significant resilience test over the last year. However, the world has been changed by the COVID-19 pandemic and new and evolving policy and operational risks must be managed and success in this venture is important to support economic recovery. This adds to an already busy reform program in areas like sustainability finance and benchmark reform.

These challenges are recognised in the work plans of national securities industry associations, like BBF in India, and in the priorities IOSCO has adopted in its work program for 2021-22. ICSA's role in facilitating member collaboration on issues of common concern, together with its related engagement with the global standard setters, will be constructive in helping to shape the pathway forward for the securities markets to best support economic recovery.

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