



Caribbean Group of Securities Regulators 6th Annual Conference

**Regulatory responses to
Unregulated Financial Markets and Products**

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- **G20 call for review of the scope of financial regulation**
- **IOSCO establishes Task Force on Unregulated Financial Markets and Products**

Redefining perimeter of financial regulation



- **What do we mean by redefining the scope of regulation?**
- **Boundary of regulation varies from country to country**
- **Focus on systematically important markets and products**

- **Both markets are critically important to availability of credit and the restoration of international capital flows**
- **Both markets are international**
- **But markets illustrate difference concerns**

What are the issues with securitisation?



- **Wrong incentives**
- **Inadequate risk management practices**
- **Regulatory structure and oversight issues**

Wrong incentives

- **What is the problem?**
- **Retention of long-term economic exposure**
- **Enhancement of disclosure**
- **Provision of key services and opinions**

Securitisation Final Recommendation 1



- **Consider requiring originators and/or sponsors to retain a long-term economic exposure to the securitisation in order to appropriately align interests in the securitisation value chain**
- **Require enhanced transparency through disclosure by issuers to investors of all verification and risk assurance practices that have been performed or undertaken by the underwriter, sponsor, and/or originator**
- **Require independence of service providers engaged by, or on behalf of, an issuer, where an opinion or service provided by a service provider may influence an investor's decision to acquire a securitised product; and**
- **Require service providers to issuers to maintain the currency of reports, where appropriate, over the life of the securitised product**

Inadequate risk management practices



- **What are the problems?**
- **Lack of information**
- **Industry initiatives**
- **Role of investors**

Securitisation Final Recommendation 2



- **Provide regulatory support for improvements in disclosure by issuers to investors including initial and ongoing information about underlying asset pool performance. Disclosure should also include details of the creditworthiness of the person(s) with direct or indirect liability to the issuer**
- **Review investor suitability requirements as well as the definition of sophisticated investor in the relevant market and strengthen these requirements, as appropriate, in the context of the relevant market**
- **Encourage the development of tools by investors to assist in understanding complex financial products.**

- **IOSCO jurisdictions to assess scope of regulatory reach**
- **IOSCO jurisdictions to consider necessary enhancements to support recommendations to address wrong incentives and improve risk management practices**

Further IOSCO work to enhance securitisation transparency



- **Issuer transparency and investor due diligence**
- **Post-trade transparency**

What are the issues with CDS?

- **Counterparty risk**
- **Lack of transparency**
- **Operational risk**

CDS Final Recommendation 4

- **Appropriate regulatory structure for CCPs**
- **Standardisation of CDS contracts**
- **Update of CPSS-IOSCO recommendations for CCPs**
- **Disclosure of CDS data**
- **Information sharing and co-operation**
- **Improvement in operational efficiency**

CDS Final Recommendation 5

- **IOSCO jurisdictions to assess scope of regulatory reach**
- **IOSCO jurisdictions to consider enhancements to support IOSCO recommendations for CDS market**

Can general recommendations be developed?

- **Experience of CDS may inform how to approach other unregulated financial markets and products**
- **But CDS differ from other types of standardised OTC derivatives**
- **But need to recognise that recommendations for CDS may not be suitable for other standardised products**

Where do we go from here?

- **Interim report published in May 2009**
- **Final report published in September 2009**
- **Report sent to Financial Stability Board**
- **Task Force to continue work; mandate to be finalised in December 2009**