

**MEMO# 33147**

March 2, 2021

# IOSCO Releases Work Program for 2021-2022

[33147]

March 2, 2021 TO: ICI Members

ICI Global Members SUBJECTS: COVID-19

Cybersecurity

Derivatives

Disclosure

Distribution

ESG

Exchange-Traded Funds (ETFs)

Financial Stability

International/Global

Money Market Funds

Technology & Business Continuity

Valuation RE: IOSCO Releases Work Program for 2021-2022

On February 26, IOSCO issued its 2021-2022 work program,[\[1\]](#) which includes initiatives related to:

- Financial stability and non-bank financial intermediation (NBFI),
- COVID-19,
- Sustainable finance,
- Passive investing and index providers,
- Crypto assets,
- Artificial intelligence and machine learning, and
- Retail distribution and digitalization.

In this memorandum, we highlight IOSCO initiatives that may be of interest to ICI members.

## **Financial Stability Engagement Group Initiatives Regarding Financial Stability and NBFI**

Several initiatives arise from IOSCO's conclusion that COVID-19 market stress "underscored the interconnectedness of capital markets with the wider financial system and brought into focus potential structural and regulatory vulnerabilities in NBFI activities." Through its Financial Stability Engagement Group (FSEG),[\[2\]](#) IOSCO will be contributing to NBFI-related activities at the Financial Stability Board (FSB). These activities include:

- **Money market fund resilience:** Building on the findings of the recent IOSCO thematic note on money market funds during the March-April 2020 period,[\[3\]](#) FSEG will contribute to FSB policy work on money market funds and short-term funding markets.
- **Liquidity risk and its management in open-ended funds (OEFs):** IOSCO will conduct work in several areas, including:
  - FSEG will conduct an analysis of OEFs that experienced stress during the COVID-19 crisis by Q2 2021.
  - IOSCO and FSB will issue a joint report on liquidity risk management tools for OEFs by late-2021. As part of this effort, FSEG will conduct an analysis of OEFs that experienced redemption pressures during the COVID-19 market stress period. IOSCO states this work will be informed by industry outreach and its Assessment Committee's review of IOSCO's 2018 Liquidity Risk Management Recommendations (2018 Recommendations),[\[4\]](#) which will be issued in early 2021.
- **Corporate bond market microstructure and liquidity provision:** FSEG will issue a diagnostic report to the IOSCO Board and the FSB examining market microstructure and liquidity provision in corporate bond markets by mid-2021 and report on market participants' behavior during the COVID-19 induced market stresses by Q4 2021.
- **Margin dynamics:** IOSCO, together with the Committee on Payments and Market Infrastructures and the Basel Committee on Banking Supervision, will report to the FSB on margin dynamics in cleared and uncleared markets by late 2021.
- **Fund valuations:** Directly linked to the work on OEF liquidity risk, IOSCO will undertake exploratory work on fund valuations in 2022.

## Other Financial Stability and Investment Funds Projects

In addition to the FSEG work discussed above, IOSCO is planning to conduct further work regarding financial stability and investment funds.

- **Review of Liquidity Risk Management Recommendations:** As mentioned above, IOSCO's Assessment Committee will initiate a thematic review of liquidity risk management in OEFs to assess member implementation and industry adoption of the 2018 Recommendations. IOSCO plans to issue the final report for this review in 2022.
- **ETFs:** IOSCO will continue its analysis of the ETF market in 2021 and review the behavior of ETFs during the March 2020 stress. IOSCO will report to the IOSCO Board on findings and policy proposals by Q3 2021 and consult on possible policy proposals in late-2021 / H1 2022.
- **Leverage in Investment Funds:** Building on its 2019 Leverage Report,[\[5\]](#) IOSCO will issue a global leverage report based on data gathered from members as of 2020 by the end of 2021.

## Initiatives Regarding Risks Arising from COVID-19 Pandemic

IOSCO will conduct initiatives relating to misconduct risks, operational resilience, and fraud arising out of the COVID-19 pandemic, including the challenges associated with the transition to remote working arrangements, cyber-security, and outsourcing arrangements. Building on its 2020 Retail Market Conduct Taskforce report on initial findings and observations about the impact of COVID-19 on retail conduct issues,[\[6\]](#) IOSCO will deliver reports on misconduct risks; operational, cyber-security and business continuity plans risks; and fraud and scams by 2022.

## **Sustainable Finance Initiatives**

IOSCO's Sustainable Task Force (STF) will conduct initiatives on sustainability reporting, including by engaging with the International Financial Reporting Standards Foundation to ensure that any proposals stemming from its consultation on the potential to set up a sustainability standards setting board meet securities regulators' expectations. IOSCO will deliver a report on sustainability-related disclosures for issuers by end of June 2021 and deliver reports on sustainability-related disclosures for asset managers and ESG ratings and ESG data providers by year end 2021.

## **Passive Investing and Index Provider Initiatives**

IOSCO is developing a thematic analysis of the impact of the growth of passive investing on equity capital markets, including its drivers, impact on market efficiency and corporate governance, and impact on investors. IOSCO will submit its final thematic analysis report on the impact of the growth of passive investing on equity capital markets to the IOSCO Board in mid-2021. The report will draw on intelligence gathered at industry roundtables to be arranged in 2021.

IOSCO will also continue its review of index provider conduct-related issues, including by engaging with stakeholders on the role of asset managers in relation to indices and index providers, as well as the role and processes of index providers in the provision of indices. IOSCO will submit the findings of this work in a report to the IOSCO Board in late 2021.

## **Crypto-Assets Initiatives**

IOSCO will continue work on the ICO Support Framework and continue contributing to the global regulatory agenda on stablecoins in 2021. It will also conduct follow-up work on the FSB recommendations for the regulation, supervision, and oversight of global stablecoin arrangements.<sup>[7]</sup>

## **Artificial Intelligence and Machine Learning Initiatives**

IOSCO will publish a final report on the use of artificial intelligence and machine learning by market intermediaries and asset managers in Q2 2021.

## **Retail Distribution and Digitalization Initiatives**

IOSCO is developing a set of policy measures to address and mitigate the risks posed by online cross-border marketing and distribution. The measures will also contain guidance on effective enforcement approaches. IOSCO will publish its final report on online marketing and retail distribution by Q3 2021.

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### **endnotes**

<sup>[1]</sup> The report is available at <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD673.pdf>.

[2] The IOSCO Board established FSEG to enhance IOSCO's approach to financial stability issues, including with regard to its engagement with the Financial Stability Board and other international standard setting bodies. FSEG is co-chaired by the Commodity Futures Trading Commission and the Autorité des marchés financiers.

[3] See Money Market Funds during the March-April Episode, Thematic Note (November 2020), *available at* <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD666.pdf>.

[4] See Recommendations for Liquidity Risk Management for Collective Investment Schemes, Final Report (February 2018), *available at* <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD590.pdf>.

[5] See Recommendations for a Framework Assessing Leverage in Investment Funds, Final Report (December 2019), *available at* <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD645.pdf>.

[6] See Retail Market Conduct Task Force Report Initial Findings and Observations About the Impact of COVID-19 on Retail Market Conduct Final Report (December 2020), *available at* <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD669.pdf>.

[7] See Financial Stability Board, Final Report and High-Level Recommendations on Regulation, Supervision and Oversight of "Global Stablecoin" Arrangements (October 13, 2020), *available at* <https://www.fsb.org/wp-content/uploads/P131020-3.pdf>.