

MEMO# 33997

January 18, 2022

IOSCO Releases Report on Risk Outlook 2022

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TO: ICI Members

ICI Global Members SUBJECTS: COVID-19

International/Global RE: IOSCO Releases Report on Risk Outlook 2022

The International Organization of Securities Commissions (IOSCO) recently published its Risk Outlook 2022 ("report"). The report aims to provide an update on the relevant risks and issues that feature prominently on regulators' agenda as assessed against the current and global economic prospects post COVID-19, and the status of current IOSCO's priorities measured against existing and planned IOSCO work.[\[1\]](#)

The report comprises of three sections: (1) an update on the global macro-financial environment; (2) the Committee on Emerging Risks' (CER) review of issues and risks that persist or have emerged since the previous Risk Outlook; and (3) a high-level materiality review of existing IOSCO corporate priorities.

This memorandum highlights the key findings of the report.

1. Global macro-financial environment

The global macro-financial environment continues to recover from the COVID-19 economic shock, in part supported by the monetary and fiscal policy responses in many countries. The International Monetary Fund (IMF) predicts world GDP growth to top 5% in 2021, with large gains in several key economic regions such as the United States and Emerging and Developing Asia[\[2\]](#). GDP growth is expected to soften in 2022 across most global economic regions and will hinge on factors such as the uncertainty over the future course of the pandemic, an easing of global supply bottlenecks, and fiscal and monetary policy moving forward. These factors will continue to generate uncertainty, leading to vulnerabilities in global financial markets.

2. CER's review of issues and risks

The objective of the CER's review is to assess whether new issues have emerged (or have re-emerged or persist) since the previous Risk Outlook against the backdrop of the current

and future global macro-financial environment. The review also tracks the development or evolution of previously flagged topics and issues across IOSCO jurisdictions.

The CER did not identify any new issues for IOSCO Board's consideration as a new priority under the current 2021-2022 work program. However, the CER determined that there are several sectoral issues and associated themes that may merit the Board's attention when developing their workplans for 2022. These include:

- Sustainable finance. The IOSCO Sustainable Finance Task Force (STF) will continue to focus its efforts on three existing workstreams with a view to deliver its mandate to improve investor protection and market transparency.[\[3\]](#)
- Cyber risks. The risks include the cyber resilience of firms, in particular core financial market infrastructure firms as well as the suppliers and vendors on which they rely. Although there is currently no specific IOSCO priority relating to cyber risk in the workplan, some elements of cyber risk are covered in existing committee work though not in significant depth.[\[4\]](#) Cyber risk is also subject to international work, including at the FSB, and has been a topic of interest from the G7.
- Crypto assets. The rapid growth of crypto assets and the emergence of decentralized finance (DeFi) raise concerns for investor protection, market integrity, and financial stability. DeFi is currently a subject of work within the IOSCO's Fintech Network. The CER recommends the IOSCO Board to consider whether additional work or continuous monitoring regarding crypto assets is warranted, particularly around regulators' ability to effectively regulate and supervise the risks associated with crypto trading, lending, and crypto platforms.
- LIBOR transition and the emergence of credit sensitive rates (CSRs). Some benchmark administrators have recently started offering CSRs in US markets such as the Bloomberg Short-Term Bank Yield Index (BSBY). Widespread use of and transition to CSRs could present a risk to IOSCO's objectives of ensuring market integrity and reducing systemic risk. Other key authorities have expressed concerns with the stability of CSRs in the presence of small and shrinking underlying markets. The IOSCO Board may consider whether further work and/or risk monitoring is warranted.

2.1 Risks in the wake of the pandemic

Besides the above resurgent issues and risks, the CER has identified several pandemic related themes that warrant continuous attention by the IOSCO Board in 2022. These include:

- The emergence of risks and issues coming from the prevalence and influence of self-directed trading and related social media activity. The GameStop incident in January 2021 caused significant price volatility[\[5\]](#) and raised several regulatory issues. These include the structural resilience of market operators; concerns about the appropriateness of payment for order flow (PFOF) among broker-dealers that offer low-cost trading; emergence of a range of new broker dealers; and the degree of influence and use of social media in impacting trading activity.
- Growth of private finance and the recent boom in SPACs and associated issues. The growing role of private finance has raised concerns in market functioning and asset valuations. SPACs also raise issues in transparency and disclosures. On the recommendations from the CER, the IOSCO Board established the IOSCO SPAC Network in July 2021 to track and share relevant developments relating to SPACs. The CER recommends the IOSCO Board to take a closer look at the potential conflicts of interest between private equity and private credit, and the obstacles and limitations

regulators face in effectively monitoring private finance activities.

- The Archegos incident and its associated regulatory implications. The March 2021 collapse of Archegos, a family office, exposed the risks of dealers financing clients to make outsized bets on underlying securities using total return swaps (TRS). The Archegos collapse also revealed several areas of vulnerability, such as the concentration risks and opacity of exposures, counterparty risk management practices, Basel capital requirement methodologies with respect to TRS exposures, and the regulatory remit of family offices. Since the Archegos incident, there has been significant regulatory work on the domestic and international levels (such as IOSCO and FSB) to examine the impacts of the Archegos collapse in areas such as better use of cross-border data sharing. Going forward, the CER recommends the IOSCO Board to consider doing a stocktake of IOSCO work and assess whether further risk monitoring relating to family offices is warranted.
- Increasing asset valuations and high corporate debt levels. Prolonged periods of accommodative monetary policies combined with household and business support measures implemented following the outbreak of the COVID-19 pandemic have contributed to the rise of asset prices across sectors. A sudden price correction, triggered by factors such as the resurgence of the COVID-19 virus, the withdrawal of support measures, or a sudden rise in interest rates in response to increasing inflation concerns, could have serious implications for financial stability. The increase in corporate debt levels due to the issuance of additional debts also raised concerns to the global financial markets.

3. Materiality review of existing IOSCO corporate priorities

The CER has conducted a materiality review of existing IOSCO priorities against recent market developments to determine whether there are any needs for the IOSCO Board to re-assess a current IOSCO priority within the IOSCO 2021-2022 work program.^[6] The CER concluded that there should be no changes to the existing IOSCO corporate priorities within the IOSCO 2021-2022 work program. The existing priorities include: (1) systemic risks of NBSI activities; (2) other financial stability and investment fund projects; (3) risks exacerbated by the COVID-19 pandemic such as misconduct risks, operational resilience, and fraud; (4) sustainable finance; (5) passive investing and index providers; (6) market fragmentation in securities and derivatives markets; (6) crypto assets (including stablecoins); (7) artificial intelligence and machine learning (AIM)

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endnotes

^[1] The report is based on IOSCO's two-year work program (2021-2022) released in February 2021 and is *available at*
<https://www.iosco.org/library/pubdocs/pdf/IOSCOPD673.pdf>

^[2] IMF, World Economic Outlook 2021, *available at*
<https://www.imf.org/en/Publications/WEO/Issues/2021/10/12/world-economic-outlook-octobe>

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[3] These workstreams include (1) a workstream on sustainability-related disclosures for issuers (WS1); (2) a workstream on sustainability-related disclosures for asset managers, greenwashing considerations and other investor protection issues (WS2); (3) a workstream on ESG ratings and ESG data product providers (WS3).

[4] The joint Committee 2 and Committee 3 project look at lessons learned from the operational disruption caused by COVID-19, including some elements of cyber security risk.

[5] The price of GameStop increased over 1,600% between the close on 12 January 2021 and the close on 27 January 2021. The volume of trading in GameStop increased in a similar fashion, growing from less than 5 million shares per day through most of the first half of 2020 to nearly 200 million shares on 22 January 2021.

[6] IOSCO Board Priorities - Work Program 2021-2022, released in February 2021, is available at <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD673.pdf>

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